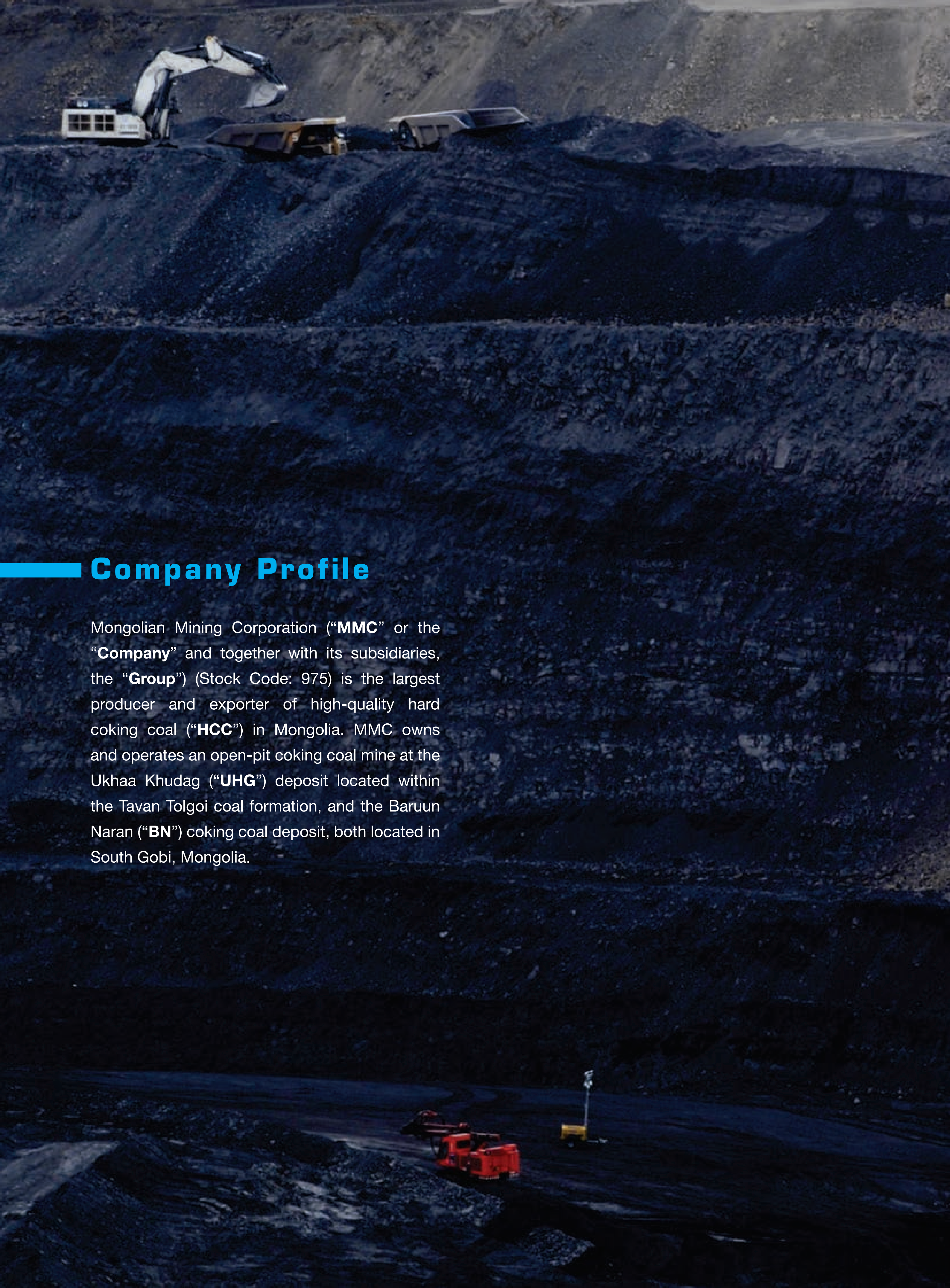
MONGOLIAN MINING CORPORATION

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 975

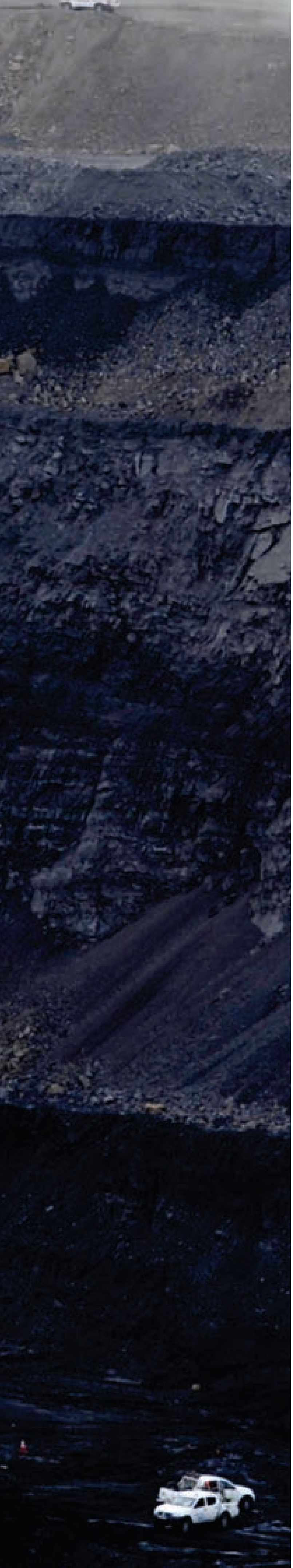
ANNUAL REPORT 2013

Contents



Company Profile

Mongolian Mining Corporation (“**MMC**” or the “**Company**” and together with its subsidiaries, the “**Group**”) (Stock Code: 975) is the largest producer and exporter of high-quality hard coking coal (“**HCC**”) in Mongolia. MMC owns and operates an open-pit coking coal mine at the Ukhaa Khudag (“**UHG**”) deposit located within the Tavan Tolgoi coal formation, and the Baruun Naran (“**BN**”) coking coal deposit, both located in South Gobi, Mongolia.



MISSION, VISION AND VALUES

Our mission:

To undertake safe and profitable mining and processing of mineral resources while promoting the development of Mongolia, through combining modern technology with human endeavor

Our vision:

We will strive to become a leading mining company in the region by maximising value for our shareholders and for the communities where we operate

Our values and objectives:

We recognise that people are our key asset. Therefore:

- MMC makes the safety of our personnel the highest priority
- As a responsible employer, MMC provides equal employment opportunities within a meritocratic workplace

We believe that modern and cost-efficient technology will bring sustainable growth and prosperity. Therefore:

- MMC aims to use technology and innovate in the same to make quality products safely at the lowest cost
- MMC will contribute to the development of technical standards in the global extractive industry

We are committed to environmental sustainability in our operations. Therefore:

- MMC will strive to minimise the impact on the environment
- MMC will comply with all required environmental standards, and take further measures to prevent and mitigate potential environmental impact

We are committed to socially responsible mining practices. Therefore:

- MMC will strive to build mutually beneficial relationships with local communities and officials
- MMC will contribute to social development through community development initiatives and other programs

We are committed to transparent and fair business practices. Therefore:

- MMC will foster mutually beneficial relationships with our suppliers and contractors
- MMC will develop, maintain and value long-term relationships with our customers

We believe sound corporate governance is a cornerstone of MMC's management and operations. Therefore:

- MMC will comply with the best international practices
- MMC will cultivate a culture of corporate governance as an integral part of its ongoing organisational development

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Odjargal Jambaljamts (Chairman)
Battsengel Gotov (Chief Executive Officer)

Non-Executive Directors

Oyungerel Janchiv
Batsaikhan Purev
Od Jambaljamts
Enkhtuvshin Gombo

Independent Non-Executive Directors

Ochirbat Punsalmaa
Unenbat Jigjid
Chan Tze Ching, Ignatius

REGISTERED OFFICE

Cricket Square, Hutchins Drive
PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN MONGOLIA

16th Floor, Central Tower
Sukhbaatar District
Ulaanbaatar 14200
Mongolia

COMPANY SECRETARY

Ng Sin Yee, Clare

INDEPENDENT AUDITOR

KPMG
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

AUTHORISED REPRESENTATIVES

Battsengel Gotov
Ng Sin Yee, Clare

COMPLIANCE ADVISER

Anglo Chinese Corporate Finance, Limited
40th Floor, Two Exchange Square
8 Connaught Place
Central, Hong Kong

LEGAL ADVISERS

Davis Polk & Wardwell
18th Floor, The Hong Kong Club Building
3A Chater Road, Hong Kong

Economic & Legal Consultancy LLP
Suite 1003, Central Tower
Sukhbaatar District
Ulaanbaatar 14200
Mongolia

Conyers Dill & Pearman
2901, One Exchange Square
8 Connaught Place
Central, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

PRINCIPAL BANKERS

EBRD – European Bank for Reconstruction and Development, London, United Kingdom
FMO – Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (Entrepreneurial Development Bank of Netherlands)
DEG – Deutsche Investitions-und Entwicklungsgesellschaft mbH (The German Investment and Development Company)
The Standard Bank of South Africa Ltd.
BNP Paribas, Singapore Branch
Citibank, N.A., Hong Kong Branch
The Bank of East Asia, Limited, Hong Kong
Standard Chartered Bank (Hong Kong) Limited
ING Group N.V.
Golomt Bank of Mongolia
Khan Bank of Mongolia
Trade and Development Bank of Mongolia

COMPANY WEBSITE

www.mmc.mn

STOCK CODE

975

Directors and Senior Management

BOARD OF DIRECTORS (THE "BOARD")

Odjargal Jambaljamts, aged 48, is an executive Director and Chairman of the Board. Mr. Jambaljamts was appointed as an executive Director of the Company on 18 May 2010. Mr. Jambaljamts is also the Chairman of the Nomination Committee and member of the Remuneration Committee. From 1993 to the present, Mr. Jambaljamts has been the Chairman of MCS Holding LLC (together with its subsidiaries, the "**MCS Group**"), an associate of MCS Mining Group Limited (a controlling shareholder of the Company). Mr. Jambaljamts is a director of Starain Limited since January 2011, director of Novel International Investment Limited and director of Novel Holdings Group Limited, a controlling shareholder of the Company, since March 2012. He was appointed as a director of MCS (Mongolia) Limited, also a controlling shareholder, and MCS Mining Group Limited on 3 July 2012. Mr. Jambaljamts is the brother of Mr. Od Jambaljamts, a non-executive Director and controlling shareholder of the Company. From 1989 to 1991, Mr. Jambaljamts was an automation engineer at the Energy Authority of Ulaanbaatar, Mongolia. From 1992 to 1993, he was an economist at the Hydropower LLC for the Project of Egiin River. Mr. Jambaljamts was awarded a bachelor's degree in cybernetics of electrical system by the Kiev Polytechnic Institute, Ukraine, and holds his master's degree in business administration from the Maastricht School of Management, Ulaanbaatar, Mongolia.

Battsengel Gotov, aged 41, is an executive Director and Chief Executive Officer of the Company. Dr. Gotov was appointed as an executive Director of the Company on 18 May 2010. He joined the Group in June 2008 as the Chief Executive Officer of Energy Resources LLC. Since 2004, Dr. Gotov has served at various managerial positions in the MCS Group. He was appointed as the Chief Executive Officer of Khangad Exploration LLC on 7 December 2012. From 1996 to 2000, Dr. Gotov was an Assistant Professor at Comenius University in Bratislava. He moved to the University of Cologne, Germany in September 2000 as a research fellow sponsored by the Alexander von Humboldt Foundation, and stayed at the University of Cologne from September 2000 until October 2003 as a postdoctoral fellow. Dr. Gotov is a board member of the Mongolian National Mining Association, the Mineral Industry Safety Association and the South Gobi Business Council. Dr. Gotov was awarded a master's degree in science and a PhD in organic chemistry by the Comenius University, Slovakia.

Oyungerel Janchiv, aged 59, is a non-executive Director of the Company. She was appointed as a non-executive Director of the Company on 16 September 2010. Between 1979 and 1982, Dr. Janchiv served as a petroleum economist at the Oil Supply Management Authority. From 1988 to 1990, she served as a chief economist at the Oil Supply Management Authority. From 1990 to 1996, she was the general director of the board of directors of the Neft Import Concern and was responsible for managing the importation and distribution of petroleum products. Since 2008, Dr. Janchiv has been the Chairperson of Petrovis LLC which is the largest shareholder of Petro Matad Limited and the largest petroleum import and distribution company in Mongolia. Since September 2012, Dr. Janchiv has been the deputy chair of Petro Matad Limited which is listed on the Alternative Investment Market of the London Stock Exchange. Dr. Janchiv was awarded a diploma of engineer-economist for the petroleum and gas industry and a PhD by the Gubkin State University of Oil and Gas in Moscow, Russia.

Batsaikhan Purev, aged 47, is a non-executive Director of the Company. He was appointed as a non-executive Director of the Company on 16 September 2010. He is a representative of Shunkhlai Mining, a shareholder of the Company. He is a founder of Shunkhlai LLC, one of the first private companies in Mongolia and one of Mongolia's largest petroleum companies. He has been the General Director of Shunkhlai LLC and Shunkhlai Group LLC, and an executive director of Shunkhlai Mining LLC since 1993. Mr. Purev has been the Chairman of Skytel LLC since 2011 and Chairman and President of Shunkhlai Group LLC since January 2012. He is a Chairman of APU Company, a company listed on the Mongolian Stock Exchange. Mr. Purev was awarded a bachelor's degree in mechanical engineering by the Mongolian Technical University.

Directors and Senior Management

Od Jambaljamts, aged 49, is a non-executive Director of the Company. Mr. Jambaljamts was appointed as a non-executive Director of the Company on 4 July 2012. He is also a member of the Corporate Governance Committee. Mr. Jambaljamts is the president of MCS Group and a director of a number of subsidiaries within the MCS Group. He also works as the Honorary Council General of Denmark. Mr. Jambaljamts has over 20 years of experience in both private and public sectors and has extensive experience in working with companies in a diversity of fields. Mr. Jambaljamts is the brother of Mr. Odjargal Jambaljamts, the Chairman of the Board, an executive Director and a controlling shareholder of the Company. Mr. Jambaljamts is also a director of MCS (Mongolia) Limited and MCS Mining Group Limited since July 2012 and director of Trimunkh Limited since July 2011, all of which are controlling shareholders of the Company. Mr. Jambaljamts was awarded a bachelor's degree in International Relations by the Institute for International Relations, Moscow, Russia in 1988 and master's degree in arts majoring in foreign affairs by the University of Oxford, United Kingdom in 1993. Mr. Jambaljamts was awarded the Honorary Labour Medal of Mongolia in 1997, and twice awarded with the Polestar medal of Mongolia.

Enkhtuvshin Gombo, aged 42, is a non-executive Director of the Company. She was appointed as a non-executive Director of the Company on 16 September 2010. Ms. Gombo is also a member of the Audit Committee. She is a representative of MCS Group. Ms. Gombo is currently the Vice President for Finance and Investment of MCS Holding LLC. She is a director of MCS Mining Group Limited and MCS (Mongolia) Limited since July 2012. Ms. Gombo joined the MCS Group in 2003 as a financial analyst of MCS Holding LLC and became the head of the planning unit of the finance department in 2006. Ms. Gombo was appointed as a director of MCS Group's finance department in 2008. Ms. Gombo was awarded a bachelor's degree in banking and finance by the Economic College of Mongolia, a master's degree in business administration from the University of Birmingham, UK, and a master's degree in finance by the University of Colorado, United States.

Ochirbat Punsalmaa, aged 72, is an independent non-executive Director of the Company. Mr. Punsalmaa was appointed as an independent non-executive Director of the Company on 16 September 2010. Mr. Punsalmaa is the Chairman of the Remuneration Committee and member of the Audit Committee and the Nomination Committee. During 1972 to 1990, Mr. Punsalmaa held various positions with the Government of Mongolia ("**GoM**"), including deputy minister of the ministry of power energy and mining, minister of the ministry of fuel and power energy of Mongolia, chairman of the state committee of external economic relations and cooperation of Mongolia and minister of the external economic relation of Mongolia. Mr. Punsalmaa was the President of Mongolia between 1990 and 1997. Since 1997, he has been the chairman of the board of Ochirbat Foundation. He was awarded a PhD in Technical Sciences by the Moscow Mining Institute, and Honorary Doctorate by Dankook University, South Korea, Mongolian Technical University and Saint Petersburg Mining Institute, Russia. He has been an Academician of Mongolian Academy of Science since July 2011. Mr. Punsalmaa was credited as a Barrister Emeritus by the School of Law, Texas Wesleyan University, United States.

Unenbat Jigjid, aged 51, is an independent non-executive Director of the Company. Mr. Jigjid was appointed as an independent non-executive Director of the Company on 16 September 2010. Mr. Jigjid is the Chairman of the Corporate Governance Committee and member of the Audit Committee, Nomination Committee and Remuneration Committee. From 1990 to 2000, Mr. Jigjid held various positions in the Bank of Mongolia, including economist, senior economist, director of the monetary policy department and governor. During the period from 2000 to 2006, Mr. Jigjid was the executive director of the Mongolian Bankers Association. Since 2009, Mr. Jigjid has been an executive director of the Corporate Governance Development Center in Mongolia. He is also a member of the supervisory board of the Bank of Mongolia and the board of Micro Finance Development Fund. From October 2010, Mr. Jigjid serves as a director of Golomt Bank and Resources Investment Capital. He has been the board member of Open Society Forum in Mongolia since March 2011. On 26 April 2013, Mr. Jigjid was appointed as an independent non-executive Director of APU Company, a company listed on the Mongolian Stock Exchange. Mr. Jigjid was awarded a master's degree in economics by the Moscow Institute of Economics and Statistics, Russia, and a master's degree in international affairs by Columbia University, United States.

Chan Tze Ching, Ignatius, aged 57, is an independent non-executive Director of the Company. Mr. Chan was appointed as an independent non-executive Director of the Company on 16 September 2010. He is the Chairman of the Audit Committee and member of the Corporate Governance Committee. From 1980 to 2007, Mr. Chan held various positions in Citigroup, including management associate, country treasurer and head of sales and trading, head of corporate banking business for Hong Kong, country officer for Taiwan, chief operating officer for Greater China, country officer for Hong Kong and head of corporate and investment banking business for Greater China. Mr. Chan was appointed as a member of the board of directors of the Community Chest of Hong Kong in February 2005. In 2008, he was the deputy chief executive of the Bank of China (Hong Kong) Limited. Mr. Chan was appointed as a senior advisor of The Bank of East Asia Limited in March 2009. He was also appointed as a member of the Council of Hong Kong Red Cross in April 2010, senior advisor of CVC Capital Partners Limited in November 2010, Honorary Advisory Vice President of The Hong Kong Institute of Bankers in February 2011, member of the Executive Committee of the Investor Education Centre (IEC) of the Securities and Futures Commission in October 2012, member of the Hong Kong Tourism Board and Deputy Chairman of Council of the Hong Kong Polytechnic University in April 2013, and Board Adviser of Hong Kong New Territories General Chamber of Commerce in May 2013. Mr. Chan was appointed as a Member of the Standing Commission on Civil Service Salaries and Conditions of Service of the Government of the Hong Kong Special Administrative Region for the period from January 2014 to December 2015. Mr. Chan is a member of the Disciplinary Appeals Committee of the Hong Kong Securities Clearing Company Limited and an independent non-executive director of Hong Kong Exchanges and Clearing Limited, the shares of which are listed on the Stock Exchange. He is also a non-executive director of Rizal Commercial Banking Corporation, the shares of which are listed on the Philippines Stock Exchange and an independent non-executive director of Larry Jewelry International Company Limited, the shares of which are listed on the Stock Exchange. Mr. Chan was appointed as a non-independent non-executive director of Affin Holdings Berhad, the shares of which are listed on Bursa Malaysia on 6 August 2013. Mr. Chan was awarded bachelor's and master's degrees in business administration by the University of Hawaii, United States, and is a Certified Public Accountant with the American Institute of Certified Public Accountants.

SENIOR MANAGEMENT

Oyunbat Lkhagvatsend, aged 37, is the Executive Vice President and Deputy Chief Executive Officer of the Company. Mr. Lkhagvatsend was appointed as the Deputy Chief Executive Officer of the Company on 10 May 2013 and the Chief Executive Officer of Energy Resources Rail LLC on 8 February 2011. Mr. Lkhagvatsend has about 13 years of experience in the business sector of Mongolia, holding senior positions in various businesses in the country. From 2003 to 2005, Mr. Lkhagvatsend was the chief executive officer of Newcom Group and was responsible for strategy planning and business development. From May 2005 to December 2006, he was the president and chief executive officer of Eznis Airways and was in charge of strategy planning, project management and other corporate affairs. He joined the Group in 2008 as the chief executive officer of Energy Resources Rail LLC and was responsible for overall business strategy and planning. Mr. Lkhagvatsend was awarded a bachelor's degree in law by the National University of Mongolia, Mongolia. He also underwent executive trainings held by the Michigan Business School, United States.

Ulemj Baskhuu, aged 35, is the Executive Vice President and Chief Financial Officer of the Company. Ms. Baskhuu was appointed as the Company's Chief Financial Officer responsible for the overall financial management, liquidity, asset management and investor relations of the Company on 27 August 2013. Ms. Baskhuu joined the Group as vice president responsible for investment of Energy Resources Rail LLC in December 2008. Ms. Baskhuu has worked for major banks and held various senior positions such as director of Financial Institutions at the Trade and Development Bank of Mongolia and head of investment banking at Khan Bank. Ms. Baskhuu was awarded a bachelor's degree in business administration from the Mercer University, United States.

Enkhtuvshin Dashtseren, aged 38, is the Executive Vice President and Chief Marketing Officer of the Company. Mr. Dashtseren has held various positions with MCS Holding LLC including chief financial officer and vice president for the corporate strategy since he joined the MCS Group in 1997. He joined Energy Resources LLC in 2008 as the vice president and chief marketing officer and has played a key role in obtaining and maintaining the current customer base of the Company. Mr. Dashtseren was awarded a bachelor's degree in finance and management from the National University of Mongolia, Mongolia.

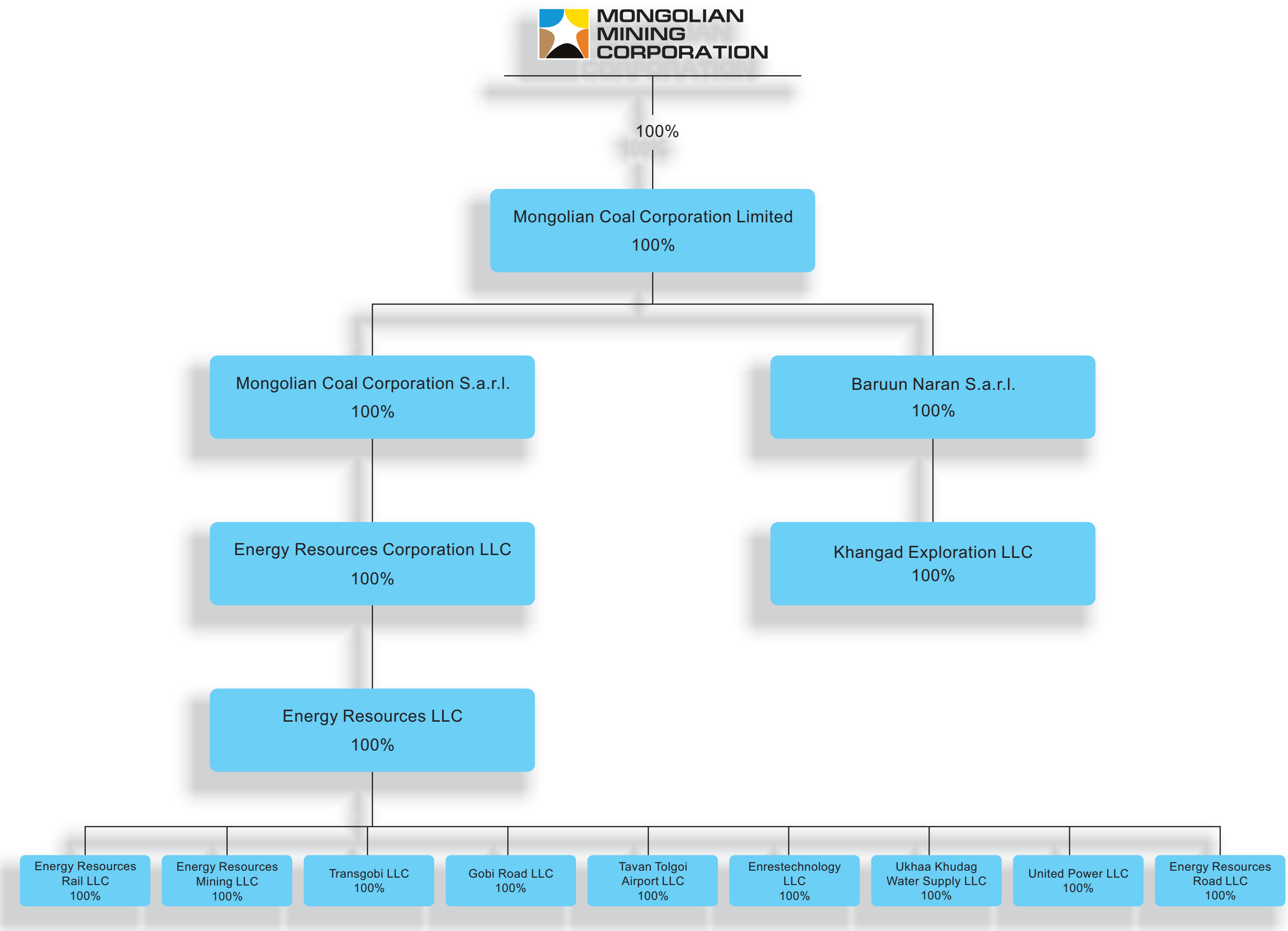
Samuel Bowles, aged 32, is the Executive Vice President and Chief Operating Officer of the Company. Mr. Bowles was appointed as the Company's Chief Operating Officer responsible for mining and processing operations on 1 October 2012 and Chief Executive Officer of Enrestechnology LLC on 27 September 2012. Mr. Bowles has over 10 years of experience in mining sector, and held various engineering, operational and project management positions in coal mining operations with companies such as Leighton LLC, Rio Tinto Coal Australia Pty Ltd and Anglo Coal Australia Pty Ltd. He has extensive industry knowledge and expertise, including short and long term mine planning, capital and operating cost estimations, surface and underground coal mining operations and technical and operational personnel development. Mr. Bowles is a member of the Australian Institute of Mining and Metallurgy. Mr. Bowles holds a bachelor's degree in mining engineering by the University of New South Wales, Australia.

Uurtsaikh Dorjgotov, aged 50, is the Executive Vice President and Chief Legal Counsel of the Company. Ms. Dorjgotov joined the Group in December 2009. Prior to joining the Company, Ms. Dorjgotov was the director of the legal and administration department and chief legal counsel of MCS Holding LLC. She also worked for 6 years on the USAID-funded Mongolia Privatisation Program of Barents Group of Bearing Point, Inc. as in-house lawyer and for 9 years at the Prosecutor General Office of Mongolia as a supervising prosecutor. Ms. Dorjgotov was awarded a master's degree (LLM) by the University of Waikato, New Zealand, and also a diploma of lawyer by the University of Irkutsk, Russia.

COMPANY SECRETARY

NG Sin Yee, Clare, aged 53, was appointed as the Company Secretary of the Company in July 2010. Ms. Ng is a director of the Corporate Services Department of Tricor Services Limited. She is a Fellow of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the UK. Before joining the Tricor Group, Ms. Ng has worked in the Company Secretarial Department of Secretaries Limited, a professional service company wholly owned by Deloitte Touche Tohmatsu. Ms. Ng has more than 28 years of experience in company secretarial field and has been providing corporate services to both multi-national companies and listed companies in Hong Kong.

Group Structure



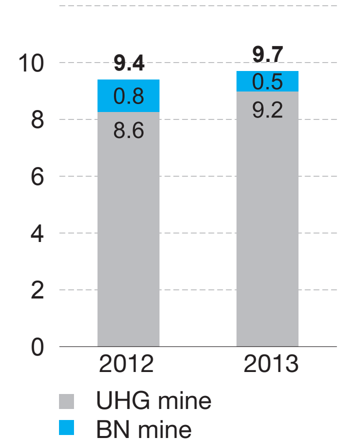
Financial Highlights

	2013 USD'000	2012 USD'000	Change
FINANCIAL			
Revenue	**437,339**	474,480	-7.8%
Cost of revenue	**361,485**	420,400	-14.0%
Gross profit	**75,854**	54,080	40.3%
Gross profit margin	**17.3%**	11.4%	5.9 ppt
Loss attributable to the equity shareholders of the Company	**(58,073)**	(2,542)	2,184.5%
Net loss margin	**-13.3%**	-0.5%	-12.8 ppt
Basic loss per share	**(1.57) cents**	(0.07) cents	-1.50 cents
Diluted loss per share	**(1.57) cents**	(0.07) cents	-1.50 cents
Total non-current assets	**1,449,851**	1,594,751	-9.1%
Total current assets	**449,019**	582,526	-22.9%
Total current liabilities	**433,276**	418,035	3.6%
Total non-current liabilities	**904,627**	1,007,229	-10.2%
Net assets	**560,967**	752,013	-25.4%
Equity attributable to equity shareholders of the Company	**560,967**	752,013	-25.4%
Net cash generated from/(used in) operating activities	**160,711**	(61,723)	375.0%
Net cash generated from/(used in) investing activities	**20,959**	(320,422)	103.7%
Net cash (used in)/generated from financing activities	**(199,296)**	385,710	-151.7%
Debt to total asset	**46.7%**	46.3%	-0.4 ppt
Debt to Equity	**158.0%**	134.1%	+23.9 ppt
Debt to Earnings before Interest, taxes, depreciation and amortisation ("**EBITDA**")[1]	**8.0x**	13.7x	-5.7x
Interest coverage ratio (EBITDA[1]/Finance cost)	**1.2x**	1.4x	-0.2x
OPERATIONAL			
Production volume (million tonnes ("**Mt**"))	**9.7**	9.4	3.2%
UHG mine (Mt)	**9.2**	8.6	7.0%
BN mine (Mt)	**0.5**	0.8	-37.5%
Strip ratio	**5.6**	5.6	0.0 ppt
UHG mine	**5.8**	5.6	+0.2 ppt
BN mine	**2.0**	6.4	-4.4 ppt
Cost per total material movement (United States Dollar ("**USD**")/bank cubic metre ("**bcm**"))	**4.2**	4.4	-0.2 ppt
Sales volume	**5.7**	5.6	1.8%
Sales volume (Mt, washed HCC)	**4.3**	3.4	26.5%
Sales volume (Mt, washed semi-soft coking coal ("**SSCC**"))	**0.0**	0.2	-100.0%
Sales volume (Mt, washed thermal coal ("**middling**"))	**1.3**	1.6	-18.8%
Sales volume (Mt, raw coal/run-of-mine ("**ROM**") coal)	**0.1**	0.4	-75.0%
Estimated share in Mongolia's total coal export	**31.5%**	26.9%	+4.6 ppt
Average selling price ("**ASP**") per tonne	**76.4**	84.8	-9.9%
ASP per tonne (USD, HCC)	**92.1**	108.4	-15.0%
ASP per tonne (USD, SSCC)	**71.2**	78.1	-8.8%
ASP per tonne (USD, middlings)	**29.9**	36.9	-19.0%
ASP per tonne (USD, raw coal[2]/ROM coal)	**27.3**	72.9	-62.6%

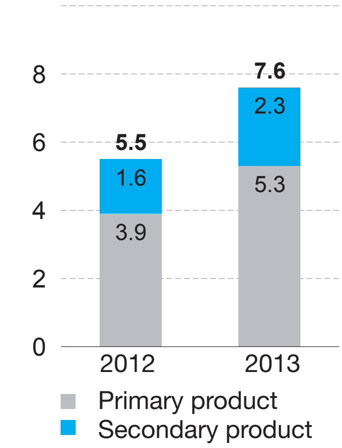
1 EBITDA and other non-cash and one-off costs

2 Raw coal sold in 2013, represents raw thermal coal, which is a non-caking coal mainly used in power generation, and it differs from raw HCC reported in 2012.

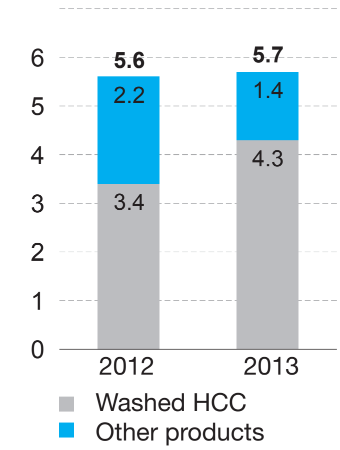
ROM coal production (Mt)



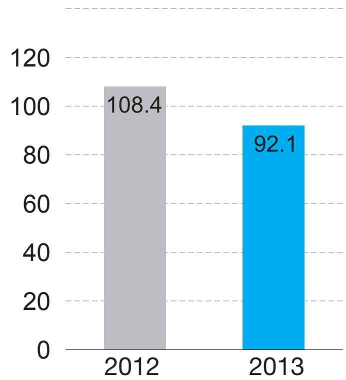
Processed coal production (Mt)



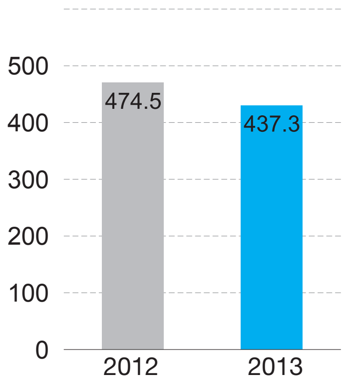
Coal sales volume (Mt)



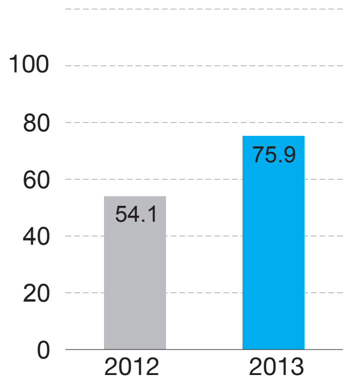
ASP of HCC (USD/tonne)



Sales revenue (million USD)

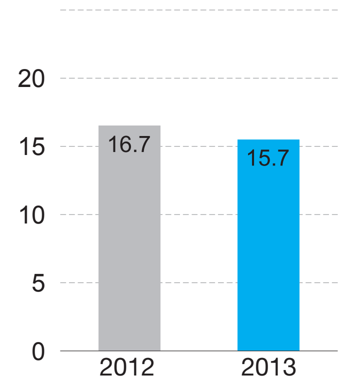


Gross profit (million USD)

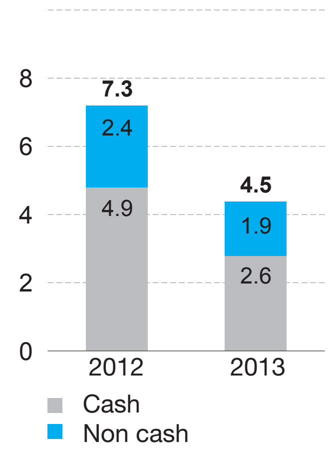


Financial Highlights

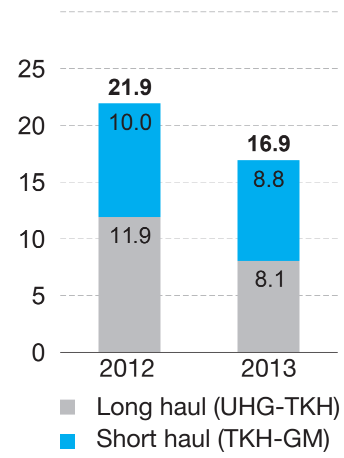
Mining cost per ROM tonne
(USD/tonne)



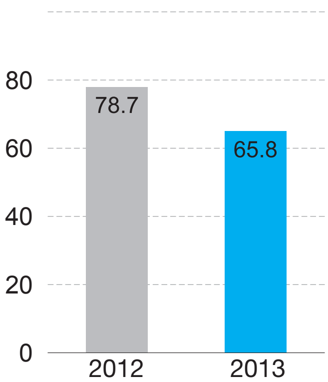
Processing cost per ROM tonne
(USD/tonne)



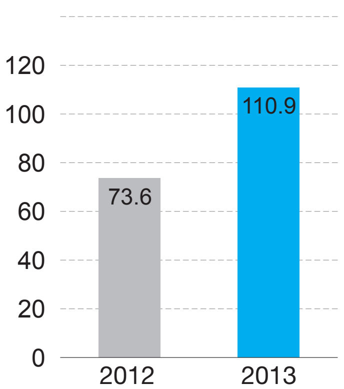
Transportation cost per tonne
(USD/tonne)



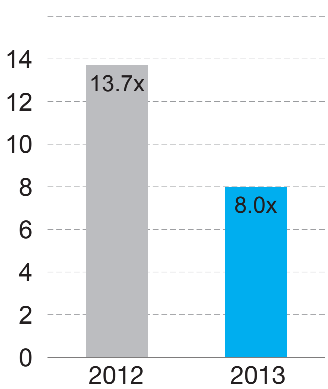
Total operating cash cost at GM
(USD/tonne)



EBITDA (million USD)



Debt to EBITDA



Chairman's Statement

Dear Shareholders,

Over the last decade, substantial increase in steel consumption spurred by urbanisation and infrastructure development in emerging markets in particular the Group's principal market, the People's Republic of China underpinned strong increase in demand for coking coal which is one of the main steel-making ingredients. In 2013, despite weakened economic conditions, Chinese crude steel production increased by over 8.7%, reaching a historic record of 779 Mt. However, over the course of the year, global coking coal market continued to experience significant downward pressure on coking coal prices due to increased supply. We expect this trend to continue in the short-term.

We maintain our positive outlook over the long-term as the fundamentals of demographics associated with increasing industrialisation will continue to create demand for steel across Asia and other emerging markets. However, the industry will ultimately need to reach more balanced equilibrium between supply and demand, before we see improvements in pricing. In the meantime, all producers and suppliers will need to focus on improving cost structure by increasing productivity and efficiency, whilst demonstrating sufficient flexibility to maintain their competitive position and face headwinds in this challenging environment.

In line with our development objectives, our Coal Handling and Preparation Plant ("**CHPP**") annual processing name-plate capacity reached 15.0 Mt after all the three modules were successfully completed and fully commissioned in 2013. It is an integral part of our operations and a key component in our long-term strategy and will allow MMC to strengthen its commitment as a reliable supplier of high quality coking coal products to end-user customers. In 2013, the Group's total washed coking coal sales volume increased by almost 26.5% annually to 4.3 Mt.

I am pleased to report that despite the testing market conditions, which negatively impacted our financial performance in 2013, the Company was able to implement and demonstrate meaningful improvements in operational efficiency and increase in productivity by focusing on cost controlling strategies. As such, for 2013, despite more than 15% drop in ASP of washed HCC, the main product sold by the Group, we were able to report gross profit of approximately USD75.9 million and EBITDA of approximately USD110.9 million, representing over 40.3% and 50.6% year-on-year increase, respectively. Additionally, in 2013, we continued with initiatives focusing on internal process improvements and successful implementation of prudent financial policies, stringent cost control measures and further enhancing our internal capabilities.

The GoM recognises the need to improve investment sentiment in the country, and led to the Parliament adopting several legislative changes which we believe will remove uncertainty and offer high level protection to all investors. Moreover, the GoM has taken significant steps to support and enhance the competitiveness of Mongolian coal industry, which shall benefit all Mongolian coal exporters, including MMC as the largest coal producer and exporter in Mongolia.

Also, I am proud to note that our pioneering work in keeping up-to-date regular public consultation and disclosure in Mongolian mining sector has gained public recognition and support. Furthermore, we remain utmost committed to playing an integral role in providing educational opportunities and in raising the standards of living in the host communities where our businesses are located.

This is clearly defined in our vision, mission, values and objectives' statement that we recognise our people as our biggest asset. Therefore, MMC takes the safety of our personnel as the highest priority. Last year, while the overall safety measures continued to improve, unfortunately, one colleague lost his life whilst on duty. On behalf of the Board, I convey sincere condolences to his family and friends. This tragic incident reminds us that the focus on workplace safety shall be fostered as an integral part of our operational management and corporate culture.

Finally, with all our internal improvement measures and witnessing the way the Group dealt with the hurdles over the course of the year, it has helped to solidify my view that we have a strong foundation to continue to create long-lasting value for our shareholders through continued improvement in our operations and our committed nature to long-term economic and socially responsible development.

On behalf of the Board, I would like to express my sincere gratitude for the continuing long-term support of our shareholders. I would also like to especially thank our staff at MMC for their dedication and commitment which they have shown in helping us enter 2014 on a positive note after completing our initial growth and development strategies, lying solid foundation to pursue further our vision to become a leading mining company in the region.

Odjargal Jambaljamts
Chairman

10 March 2014

Management Discussion and Analysis

The Group is pleased to report that continued implementation of its strategy to create a fully integrated coking coal mining, processing, transportation and marketing platform has successfully positioned the Group as the largest coal mining company in Mongolia. Continued growth in production in 2013 further strengthened its position as a reliable supplier of high quality coking coal products. Ownership and control of an integrated coal chain from mines to market has provided crucial commercial advantage within context of current competitive market conditions in the global coal industry.

Record annual production by the Group in 2013 included 9.7 Mt of ROM coal mined and 10.7 Mt of ROM coal processed, resulting in production of 5.3 Mt of washed coking coal and 2.3 Mt of middlings for export. This has been delivered via increased productivity of assets under management, as part of measures to reduce unit cost of production. During 2013, the final pieces of infrastructure required to support production rate of 15 million tonnes per annum ("**Mtpa**") nameplate capacity were commissioned, including the third CHPP module and Belt Filter Press ("**BFP**").

Production capacity of 15 Mtpa was assumed in the Life-of-Mine ("**LOM**") study prepared by RungePincockMinarco Limited ("**RPM**") in 2013. This exercise deliberately targeted synergies realisable through integration of the UHG and BN coal mining, processing and blending schedules. The resultant schedule showed that the Group controls mines capable of supplying up to 15.8 Mt of ROM coking coal annually to the CHPP for the next 28 years. Subsequent to completion of the LOM study, the Group's JORC compliant Reserves were updated, with combined total ROM Reserve increasing by 29 Mt to 480 Mt as of 31 December 2012. Importantly, within the total reported ROM Reserve quantity reported, the coking coal component increased by 33 Mt at UHG and 19 Mt at BN.

Despite slower economic growth in China relative to levels seen within the past decade, annual production of crude steel of China reached 779.0 Mt, representing annual increase of 8.7%, slightly higher than the compound annual growth rate ("**CAGR**") of 7.8% from 2009 to 2013. Annual production of washed coking coal in China reached 583.6 Mt. In parallel to this, the global coking coal market continued to experience downward price pressure, due to imbalance resulting from excess in available supply. The growth of consumption resulting from the weak price environment subsequently drove annual import of coking coal in China to 75.4 Mt, a significant increase compared to the 53.5 Mt of coking coal imported in 2012. Under these market dynamics, Mongolia continued as one of the most important coking coal suppliers into China, and the Group had maintained its leading position in Mongolian coal export, reaching 31.5% of the total coal export from Mongolia in 2013.

Updated policy related to the coal mining industry communicated in 2013 by the GoM has been favourable to the Group's short and medium term objectives. As the GoM has continued to recognise the importance of the mining sector to the country's economic growth, it has implemented a number of initiatives to ensure a stable and supportive legal and investment environment. Under the newly approved Law on Investment dated 3 October 2013, restrictions on foreign investment have been softened, and investors can be assured of long term stability in regard to four major taxes for 5 to 18 years depending on size and sector of the investment. As this law intends to provide stability for both foreign and domestic investments under non-discriminatory principles, the Group is entitled to the benefits offered under the new legislation.

Furthermore, in the recently approved State Policy on Mineral Sector (the "**Policy**"), dated 16 January 2014, state support is offered on development of coal processing, coking and chemical plants, construction of power plants based on coal deposits, production of smokeless, liquid fuel and gas from thermal coal. In addition, the GoM announced support package to facilitate coal export on 16 August 2013, which includes construction of a cross border railway connecting Gashuun Sukhait ("**GS**") port in Mongolia to Ganqimaodu ("**GM**") port in China. Favorable results of this will include increased efficiency and capacity of export, and improved access for Mongolian coal to reach markets further inland within China.

The Chinese market remains as the Group's primary destination for coal sales, and the Group continues to strengthen relations with its Chinese end-user customers. Improvement in cost and efficiency has enabled the Group to continue to improve its competitive position against global suppliers, and has thus helped the Group to maintain market share and reputation as a long term sustainable and reliable supplier. Despite the challenging market conditions, in 2013 the Group was able to increase the volume of its HCC sales to 4.3 Mt, representing 26.5% year-on-year growth.

In order to maintain competitiveness within the challenging market environment, throughout 2013 the Group implemented a suite of initiatives to improve operational efficiency and productivity to sustainably drive down cost. As part of this strategy, the Group integrated the operational management and supporting services at UHG and BN mines. Focus on maximising the productivity and efficiency of asset utilisation yielded significant cost savings compared to the previous year's performance. As examples, the Group has seen notable reductions in processing costs of 38.4% from USD7.3 to USD4.5 per ROM tonne, and transportation costs of 27.5% from USD23.3 to USD16.9 per tonne in 2013.

The Group efficiently managed its cash flow and liquidity position by minimising capital expenditure and optimising operational cash outflows in line with production and sales schedule. Importantly, successful negotiation of payment terms with major suppliers and contractors enabled the Group to offset working capital required to sustain operation. In addition to this, the Group worked to dispose some of its infrastructure assets shared by third parties in the region. Under the support package for coal export announced by the GoM on 16 August 2013, the Group negotiated and agreed with the GoM to transfer its paved road to state ownership in return of net consideration of MNT157,847,184,615 as compensation, which is equal to approximately USD90.3 million as of the date of receipt of the payment, and was settled on 13 February 2014.

Despite demanding market conditions, the Group demonstrated improved financial performance in 2013 underpinned by strong operating performance, implementation of prudent financial policies and stringent cost control measures. Despite a 15.0% decrease to ASP for HCC sold, the Group was able to report gross profit of USD75.9 million and EBITDA and other non-cash and one-off costs of USD110.9 million. These figures represent improvement of 40.3% and 50.6% year-on-year, respectively.

INDUSTRY OVERVIEW

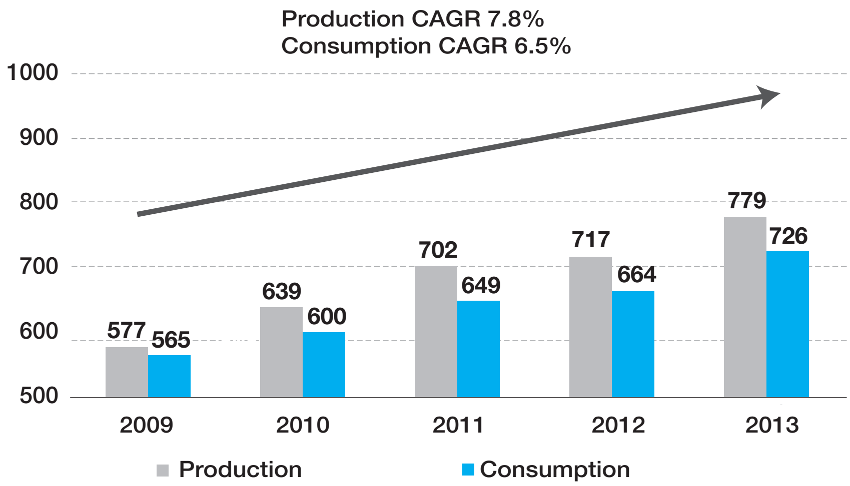
Chinese Steel Sector Performance

During the previous decade, there has been a substantial increase in global steel consumption driven by the urbanisation and infrastructure development in emerging economies. This is particularly true in the Group's target market, China, which has underpinned the strong increase in demand for coking coal as one of the main steel making ingredients.

China's economy was stable throughout 2013 with steady annual growth in comparison to the preceding year. Gross Domestic Product increased by 7.7%, the same as reported in 2012.

World Steel Association ("**WSA**") data showed that worldwide total crude steel production reached 1,582.5 Mt in 2013. China continued to dominate as the world's largest steel producer, with annual production reaching record 779.0 Mt. This accounted for 49.2% of world steel production and increased 8.7% compared to annual production of 716.5 Mt in 2012.

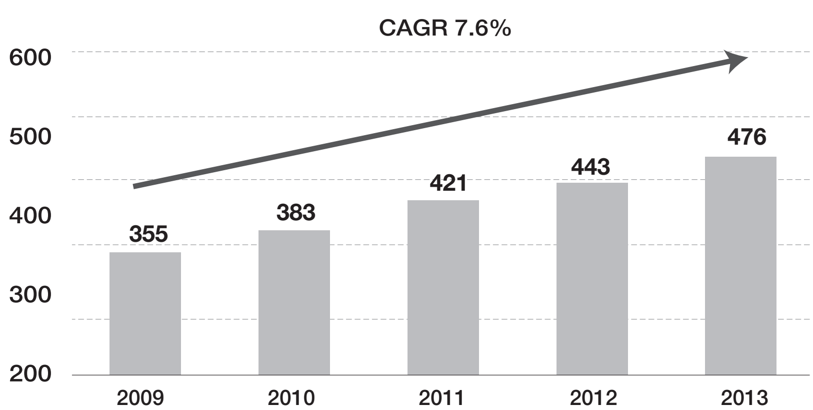
Figure 1: China crude steel production and apparent steel consumption (Mt):



Source: WSA, CISA

The slowdown of global growth and industrial output that was afflicted in 2012 also impacted upon 2013, although latter months showed early signs of recovery in demand from constituent countries within the Organisation for Economic Co-operation and Development. During 2013 overcapacity of steel production negatively influenced steel price. Simultaneously, the global coking coal market continued to experience significant downward pressure on coking coal price due the impact of both decreased steel price, and oversupply of coking coal relative to demand. In-line with the increase in crude steel production, Chinese coke production reached 476.4 Mt in 2013, representing increase of 7.5% year-on-year. The growth rate was closer to 6.4% in the first half, but accelerated toward 9.1% in the second half of the year according to the data by the China Coal Resource.

Figure 2: China coke production (Mt):



Source: China Coal Resource

China's export of coke and semi-coke in December 2013 jumped to the highest level since April 2011, according to data compiled from the General Administration of Customs. Total coke exports in 2013 amounted to 4.7 Mt, increasing by 358.0% compared to 2012, primarily due to the removal of a 40% tax on the export metallurgical coke product.

Despite the Chinese steel and coke production increase in 2013, the crude steel manufacturing oversupply situation brought political focus from Chinese government authorities to address issues concerning air pollution, industry efficiency and competitiveness. Such issues are being addressed by a range of policies and measures, including to restrict new production capacity from coming on-stream.

Example of this includes the State Council of China ("**State Council**") strictly prohibiting banks from providing new loans to steel manufacturers to launch new projects without government permission, but putting aside funds for promotion of restructuring and merging of steel companies. In addition, the State Council is encouraging Chinese domestic steel companies to search for markets abroad to address their overcapacity.

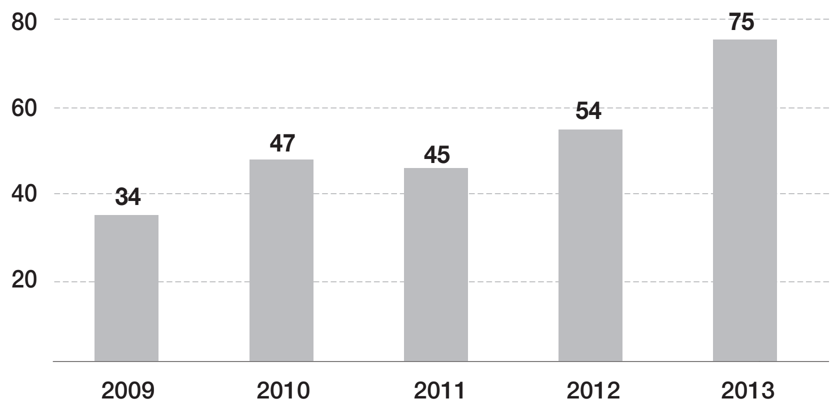
According to the China Iron and Steel Association, demand for steel produced in China will continue to grow in 2014 due to the continued focus on urbanisation and resultant steady economic environment. It estimates that China's crude steel output will reach 810 Mt in 2014, an increase of 4% annually, with steel consumption expected to rise by 3.1% year-on-year to 750 Mt.

Dynamics of Chinese Coking Coal Imports and Mongolian Coking Coal Exports

Since the second half of 2012, global coking coal price have been impacted by weak steel prices and a surge in seaborne supply volumes. The seaborne supply has been impacted predominantly by Australian mining companies aggressively expanding their production capacity in attempt to reduce unit costs, and also by North American producers who in reaction to sluggish demand in the United States and Europe, have focused on expanding sales in the Asian market. Pricing pressure from steelmakers in combination with the surge of seaborne supply volumes have contributed to the sliding of coking coal prices in 2013.

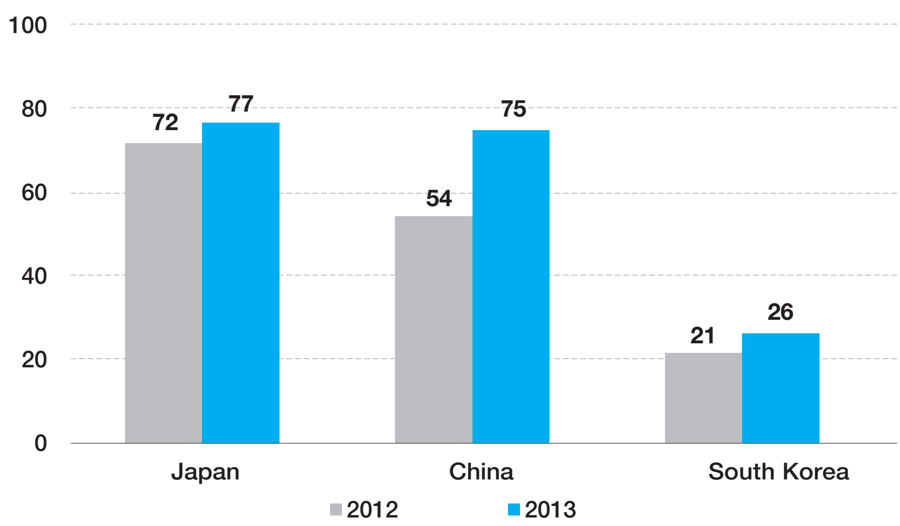
According to Chinese customs clearance statistics, China imported 75.4 Mt of coking coal in 2013 compared to 53.5 Mt imported in 2012, representing a 40.8% year-on-year increase amid cheaper seaborne supply against domestic prices. According to TEX Report data, China has closed the gap with Japan in terms of coking coal import quantity by country, and based upon continued forecast growth it will overtake Japan as the largest coking coal importer globally in 2014. China's growing dominance in the seaborne import market is having a significant effect on trading patterns across the industry.

Figure 3: China coking coal import (Mt):



Source: China Coal Resource

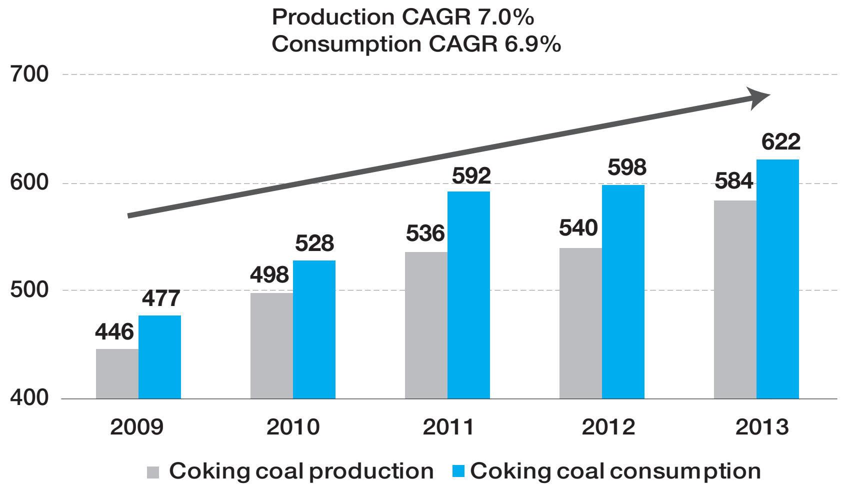
Figure 4: Major coking coal importers in the world (Mt):



Source: The TEX report, China Coal Resource

Total Chinese domestically produced coking coal increased by 43.8 Mt in 2013 from 539.8 Mt produced in 2012 to 583.6 Mt produced in 2013, an increase of 8.1% year-on-year.

Figure 5: China coking coal production and consumption (Mt):

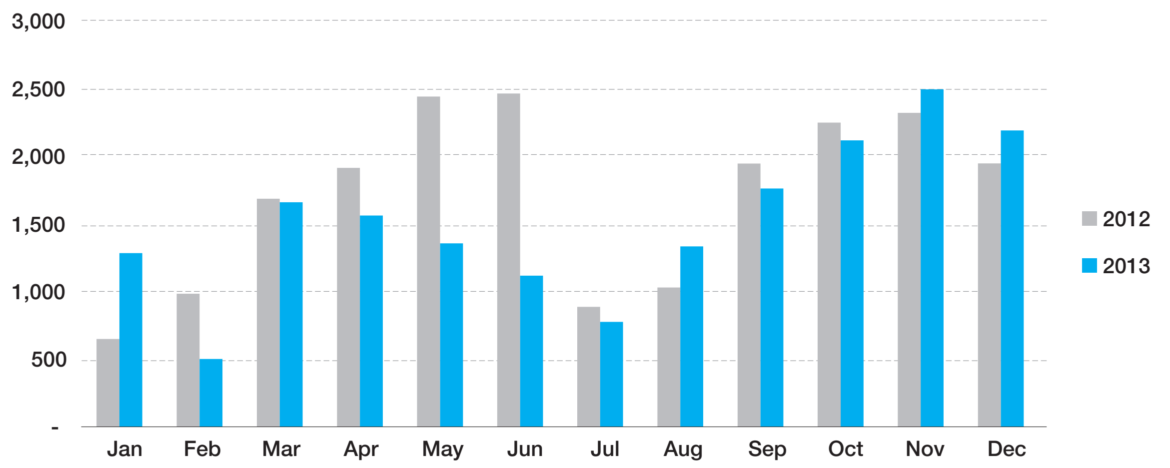


Source: China Coal Resource

The coal mining and processing industry in China saw a year-on-year profit drop in the first eleven months of 2013, according to the National Bureau of Statistics ("**NBS**"). The NBS data showed that China's coal industry realised a profit of Renminbi ("**RMB**")197.7 billion from January to November, declining by 37.0% compared with the same period of the previous year.

China is the principal market for Mongolian coal, and despite the decline in coal price from second half of 2012, Mongolia exported 18.4 Mt of coal in 2013. Whilst in total this represented a decline of 12.2% year-on-year, in the second half of 2013, Mongolian coal exports experienced 2.5% growth year-on-year relative to the same period in 2012. The rebound in the second half supply was as a result of some Mongolian coal producers resuming export shipments after temporarily halting and/or limiting their operations in the first half of the year in response to low prices and sluggish demand. Within this context, it should be noted that the Group was not affected to the same degree in the first half of 2013 compared to its domestic competitors, and leveraging off the infrastructure installed supporting the integrated mining, washing, transportation and marketing platform, the Group was able to increase its volume share in total Mongolian export year-on-year by 17.1%.

Figure 6: Mongolian coal export monthly volumes 2013 (in thousand tonnes):



Source: National Statistics Office of Mongolia

As illustrated in Table 1, a major part of the growth in supply of coking coal to China came from Australian exports in 2013, which has regained majority of the market share that was lost to Mongolia since 2011. Mongolian coking coal exports accounted for approximately 20.5% of the volume of total Chinese coking coal imports in 2013, preserving its importance as the second largest and one of the most important suppliers of coking coal to China, albeit reduced compared to the 35.7% volume share reported in 2012.

Table 1: China's coking coal import volumes by country of origin (Mt):

Countries of origin	2013	2012	Change
Total	**75.4**	53.5	40.8%
Australia	**30.1**	14.0	114.6%
Mongolia	**15.4**	19.1	(19.0)%
Canada	**11.1**	7.2	52.9%
Russia	**8.4**	4.8	75.9%
USA	**6.1**	4.5	35.3%
Others	**4.2**	4.1	3.4%

Source: China Coal Resource

The reduction in Mongolian coking coal exports in 2013 is a reflection of the challenging price environment, with infrastructure challenges presenting difficulty to the country's exporters to sell profitably. During 2013, global price competition influenced annual exports of coking coal from Mongolia, pressuring coking coal producers in Mongolia to improve cost structures and operational efficiency.

In the context of these market dynamics in 2013, Mongolia continued as one of the important coking coal suppliers for China, with the Group successfully maintaining its leading position in Mongolian coal exports, responsible for 31.5% of the total coal exported from Mongolia in 2013 compared to its previous position of 26.9% reported in 2012.

China continues to be the key driver for global steel production and consumption, responsible for nearly half of each in 2013. According to CISA estimate, Chinese steel production and consumption based on growth rates seen in the previous two years will increase in 2014. Continued increase of China's steel production will continue to drive the demand for coking coal supply growth. With the increasing dominance of large-scale furnaces in the Chinese steel industry posing higher requirements on coke quality, including high coke strength after reaction and low sulphur content, the blending ratio of premium coking coals similar to that produced by the Group is expected to increase. Coking coals produced by the Group will offer commercial advantage compared with Chinese domestic producers in particular, and bodes well for increasing Group sales into China.

Chinese government initiatives to modernise the steel production industry whilst supporting continued urbanisation and pollution reduction strategies will indirectly support the Group's activities. Constraints on production capacity, through steel industry consolidation and decommissioning of outdated and environmentally unfriendly technologies will lead to closure in the gap between supply and demand, providing impetus for steel price increase and consequent positive impact upon coke and coking coal prices.

According to a recently released guidance from the National Development and Reform Commission in December 2013, China plans to raise internal rail transportation capacity to 3 billion tonnes of coal per annum through development of a modern coal logistics system by 2020. Several measures are planned including building 11 large storage and distribution bases, as well as 30 coal logistic parks with throughput capacity greater than 20 Mtpa each.

Decommissioning of technologically uncompetitive steel production facilities will lead to development of modern coke and steel production facilities. This, in combination with the advent of increased rail and internal coal logistics capacity, will allow greater geographical market penetration of the Group's products, providing leverage for increased volume and price negotiation.

OPERATING ENVIRONMENT

Legal Framework

Regulations on Foreign Investment

In 2013, the GoM continued to recognise the significance of the mining sector in maintaining the country's economic growth, and in particular, the contribution from the coal industry to export revenue crucial to maintaining foreign trade balance and currency value. In order to encourage new foreign direct investment into Mongolia, especially in the mining and mineral processing sector, the GoM implemented a number of initiatives to ensure a stable and supportive legal environment for foreign investment. This was deliberately considered to restore confidence of international investors in Mongolia. As part of immediate steps taken in this regard, the Parliament of Mongolia adopted an amendment to the Law on Regulation of Foreign Investment Business Entities Operating in Sectors of Strategic Importance, known abbreviation of which is SEFIL (the "**SEFIL**") on 19 April 2013. This was followed by a decision by the GoM (as Resolution No. 75 on 2 March 2013) which outlined the formal procedures of approval required under the SEFIL.

After extensive dialogue and consultation with key stakeholders in the Mongolian business sector, including those from both the international and domestic investment communities, on 3 October 2013 the Parliament of Mongolia introduced a new legislation to regulate investments in Mongolia under the name of the "Law on Investment". The Law on Investment is a comprehensive piece of legislation intended to encourage investment into Mongolia, by providing certainty on taxation and other key regulatory aspects for new investments. It is aimed to attract and maintain investors' interest in key business sectors within Mongolia.

The Law on Investment was developed on the basis of experience and results from previous similar legislation, and the new law serves to replace the "Law on Foreign Investment" (1993) and the SEFIL (2012), which were subsequently abolished by the Parliament of Mongolia on 1 November 2013 when the new Law on Investment came into force.

The Law on Investment provides certainties on the stability of the legal environment, and overall protection of investment for both foreign and domestic investors under non-discriminatory treatment of their interests. One of the key components of the new legislation is the introduction of a clear regime of tax stabilisation for investors for defined periods of time. Under the Law on Investment, the following four major taxes can be stabilised for qualifying project investment for 5 to 18 years:

(a) Corporate income tax;

(b) Customs tax;

(c) Value added tax ("**VAT**"); and

(d) Royalty on mineral resources.

The periods of stabilisation available depend upon the size of the investment made, its location and the industrial sector. The period of stabilisation can be multiplied by 1.5 times for projects with total investment of more than MNT500 billion, which have significant importance for long term sustainable socioeconomic development and produce import substitutions with potential to generate export revenue. Stabilisation regime under the Law in Investment is granted and documented by a certificate of stabilisation issued by the state administrative body in charge of investment affairs. In addition, the Law on Investment also allows investors an option to apply and enter into an investment agreement with the Ministry for Economic Development for projects with investment over MNT500 billion.

Under the newly adopted Law on Investment the following business sectors remain classified as strategically important to the country:

(a) Mining;

(b) Banking and finance; and

(c) Media and Communications.

With the introduction of the Law on Investment, requirements for mandatory approval on foreign investment into strategically important sectors were eased. The Ministry of Economic Development has been appointed as the governmental body charged with approving foreign investments by state owned enterprises. This supercedes the previous requirement of high level Parliamentary or Governmental approval where an investment exceeds one third of total equity of an entity operating in strategically important sectors. The new legislation does not require approval for foreign investments by private entities in sectors of strategic importance.

In accordance with the Law on Investment, the GoM established a new agency named the "Investment Agency" under the Ministry for Economic Development on 9 November 2013, which is now responsible for implementation of the Law on Investment and state policy on investments. ER, as well as Khangad Exploration LLC, subsidiary of Baruun Naran S.a.r.l, the holder of mining license at BN mine, submitted their respective applications for available tax stabilisation certificates on 24 February 2014 and are awaiting their applications to be processed.

State Policy on Mineral Sector

Following approval of the Law on Investment, the Parliament of Mongolia approved and adopted another piece of legislation during the subsequent autumn session of Parliament in 2013 demonstrating the continued effort by the GoM to improve the legal environment applicable to the strategically important mining sector.

On 16 January 2014, the Parliament of Mongolia approved the Policy through issue of Resolution No. 18. The Policy focuses on promoting the principal interests of the nation by developing a framework for transparency and responsibility within the mining sector, encouraging private sector investment with the aim to develop a diversified and balanced economic structure in the short to medium term. Concerning the coal industry, the Policy emphasises that the state shall provide support on:

(a) the development of coal processing, coking and chemical plants;

(b) construction of coal fired power plants;

(c) production of smokeless, liquid and gas fuels from thermal coal; and

(d) production of liquid fuels from shale oil.

In terms of strategically important deposits, defined in 2007 by Resolution No. 27 issued by the Parliament of Mongolia, the Policy contains goals to improve their operational and economic productivity through advancement of public-private partnerships with optimised government involvement. The Policy Council, composed of equal representation from state organisations, investors and professional associations, is to be established with a mandate to issue recommendations on implementation of the Policy and to provide necessary support during the process.

Support Measures for Coal Export

On 16 August 2013 the GoM adopted Resolution No. 299, which pertained to actions necessary to support continued and increased coal exports. As part of the support outlined, the GoM has decided to build a narrow gauge (1,435 mm) railway lines a short distance across the border from China at the ports of GS and Shiveekhuren in Umnugobi connecting Mongolia to the respective ports of GM and Ceke in China, with targeted completion of railway construction by end of 2014. Furthermore, the GoM decided to take over the existing paved road between UHG-GS along with border crossing facilities at the GS border and transfer them under state ownership, in return of compensation payable to the Group, which developed and financed these infrastructure facilities.

Construction of cross border railway lines between Mongolia and China will have significant positive impact upon the capacity and cost of cross border transportation, and will be used primarily to facilitate coal exports. The transfer of the paved road into state ownership will increase road utilisation, and as such is expected to result in decreased unit cost of coal transportation between mines in the Tavantolgoi region (including BN and UHG) to the GS border port.

As of 31 December 2013, the Group had commenced discussions with relevant Mongolian and Chinese counterparts in effort to implement the border crossing railway between GS and GM, including negotiation on possibilities of involvement in development of the project. Negotiation and legal documentation required to execute the transfer of road and border crossing assets to the GoM was completed by end of 2013, allowing closure of the transaction in February 2014. More details regarding this can be found in announcements issued by the Group on 6 October 2011, 19 August 2013 and 13 February 2014.

On 26 December 2013, a new Law on Border Port was approved by the Parliament of Mongolia and will come into force starting from 1 April 2014. The Law on Border Port provides for detailed framework on border point administrative structure, types and regimes covering operation, border point territory and infrastructure. According to the Law on Border Port, border points shall be divided into air, railway, and auto road categories and may be designated to have permanent, temporary, international and/or bilateral regimes. The border point territory perimeter shall be defined by the Parliament of Mongolia, and shall be divided into inspection, infrastructure and construction zones. Infrastructure, construction and inspection tools and equipment shall be owned by the GoM but these may be built by private sectors under public-private partnership arrangements with condition that they be transferred to state ownership. Other infrastructure and constructions in other areas of the border point may be subject to the state, private, or mixed forms of ownership. This allows private investors to participate in border point related infrastructure developments, thus facilitating flexibility and speed of increase regarding Mongolia's coal export capacity.

Regulations on Taxation

On 16 August 2013, the GoM adopted Resolution No. 296, which introduced further clarifications on GoM Resolution No. 286 (of 2010) and Resolution No. 193 (of 2011) regarding classification of mineral ore, concentrate and products and their coding for the calculation of VAT on exports. Under Resolution No. 296, the GoM ruled that the washed coking and thermal coals shall be classified and coded under final mineral products for export. Therefore, the VAT applicable to such coking and thermal coal products for export shall be set to zero.

On 7 June 2013, the Law on Customs Tax Exemption and the Law on VAT Exemption were approved by the Parliament of Mongolia, which are intended to provide financial relief for businesses engaged in production of coal, oil and oil shale derived petroleum products. Under these legislations, tax exemptions for imported technological equipment, spare parts and specific construction materials required for such production were granted for a period until 31 December 2018. Despite absence of immediate effect to the Group's operations, the Group may benefit from this in the future with development of potential coal-deep-processing chemical plants in Mongolia, which may bring reduced fuel cost to the Group.

Regulations on Water Usage

On 2 December 2013, by Resolution No. 4/9, the Citizens' Representatives Khural (Council) of Umnugobi aimag (province) nullified its previous Resolution No. 3/9 adopted on 2 July 2013. Resolution No. 3/9 previously resolved to stop water utilisation for mining industry purposes starting from 1 January 2016. The intent of the original Resolution was to preserve water resources for potable and pastoral purposes, and restrict the granting of permits and licenses required to conduct exploration and drilling of wells whose purpose was for utilisation by the mining industry from 1 August 2013. As restrictions are nullified there will be no implications on the Group's currently held permits and licenses for water utilisation.

On 21 September 2013, in accordance with Article 15 of the Law on Environmental Resource Utilisation Fee, the GoM adopted Resolutions No. 326 and No. 327. These Resolutions defined relevant rates to be used for calculating water reserve utilisation fees. In accordance with these decisions, the underground water utilisation fee used for industrial purposes was increased 6.4 times from MNT150 to MNT959 per cubic metre and the water utilisation fee for livelihood purposes increased 1.9 times from MNT50 to MNT96 per cubic metre. Considering the commencement of the new BFP on 14 November 2013 that has capacity to decrease the amount of fresh water for industrial purposes required for coal processing by approximately 35 per cent, the cost for water utilisation fee shall remain low in the overall production cost of the Group.

Law on Common Minerals

On 9 January 2014, the Law on Common Minerals was adopted by the Parliament of Mongolia. It establishes detailed legal framework on exploration and mining related activities for common minerals, which were previously regulated by the Mineral Law 2006. The definition and classification of common minerals remains the same as in the previous legislation, with industrial aggregates which could be used as construction materials now included.

Exploration and mining licenses for common minerals shall now be granted at municipal level by a governor of an aimag (province) or city, instead of by the state mineral authority. Exploration licenses over common minerals shall now be granted initially for 3 years and can be extended once for another 2 years. Mining licenses over common minerals shall now be granted initially for 15 years, and can be extended twice for 10 years each time.

Royalty rates for mining of common minerals were revised downward from the rate of 2.5-5.0% to a flat rate of 2.5%, which should be calculated on the sale price of all types of common mineral products. This new legislation provides clear regulations for any potential new exploration and mining activities for common minerals undertaken by the Group, or for any prospective construction project where the Group might have presence as a developer or partner. The new law came into force on 27 February 2014.

Political Framework

The main political event in Mongolia during 2013 was the Presidential election, which was held on 26 June 2013.

The Democratic Party ("**DP**") nominee, incumbent President Mr. Elbegdorj Tsakhia, was re-elected defeating both the Mongolian People's Party nominee Mr. Bat-Erdene Badmaanyambuu and the Mongolian People's Revolutionary Party nominee Ms. Udval Natsag.

Mr. Elbegdorj won 50.2% of the popular vote, while candidates Mr. Bat-Erdene and Ms. Udval received 41.9% and 6.5% of the popular vote, respectively. Mr. Elbegdorj's re-election reaffirmed the current dominance of the DP in Mongolian politics, with DP nominees taking the positions including the President of Mongolia, the Speaker of the Parliament and the Prime Minister of the Cabinet.

An important political milestone observed during 2013 was that consensus was reached among major political parties to improve the investment environment in Mongolia. This consensus was reached after realistic assessment of the deterioration in investment climate within Mongolia during late 2012 and early 2013, through open-minded, multi-party dialogue. It was apparent that all political parties consequently had a proactive attitude toward immediate support action, and engagement with key domestic and international stakeholders. Direct impact as a result of this was the calling of an extraordinary session of Parliament in September 2013, which enabled the Law on Investment to be passed, and revised Policy to be released.

The Group recognises the importance of the Law on Investment, since it introduces legal framework for both direct and indirect investments covering both foreign and local investors. In such, it straightens understanding of investor rights and guarantees, as well as providing tax stabilisation regimes upon grant of stabilisation certificates. Please refer to "Regulations on Foreign Investment" of this section for detailed information.

BUSINESS OVERVIEW

UHG Deposit

Mining License MV-11952 ("**UHG mining license**") covers the UHG deposit with an area of 2,960 hectares. In the period of 2009 to 2012, the Group's geological team conducted extensive exploration activities within this license area, during which time approximately 166,385 metres of drilling was conducted. From the 1,435 boreholes drilled and geophysically logged, analytical laboratory test work was performed on a total of 32,556 samples collected.

Also during this period, the Group collaborated with Velseis Processing Pty Ltd to interpret data collected from 71 kilometres ("**km**") of high resolution 2D seismic in-field measurements, collected by Polaris Seismic International. This was used to identify continuity and structure of coal seams, as well as to obtain valuable information on the potential of the deposit's underground Resource. Large-diameter, bulk-sample drilling was also completed, with analysis of these samples collected conducted in the Ulaanbaatar laboratories owned and operated by ALS Group.

The data from these exploration activities was used to update the geological and coal quality model, and subsequently the UHG mining license JORC Coal Resource estimate as at 30 June 2012, based on an in situ density at an air-dry basis (Table 2).

Independent peer audit of this model was conducted by Mr. Todd Sercombe from GasCoal Pty Ltd, which confirmed compliance of the Group's work carried out to update the UHG geological model, thus JORC Coal Resource estimates for the UHG mining license area.

Table 2. UHG mining license area Coal Resource by depth and category as at 30 June 2012 (Note):

Total Coal Resource Depth limit from topographic surface	Resource Category (Mt)				
	Measured	Indicated	Inferred	Total (M+I)	Total (M+I+I)
Subcrop to 100m	114	55	26	170	196
From 100m to 200m	94	55	26	149	175
From 200m to 300m	80	51	17	131	148
From 300m to 400m	50	33	11	83	94
Below 400m	42	34	12	77	88
Sub-Total above 300m	288	162	69	449	519
Sub-Total below 300m	92	68	24	159	183
Total	**379**	**229**	**92**	**608**	**701**

Note:

(i) Technical information in the UHG coal Resources estimation report has been compiled by Mr. Gary Ballantine, Executive General Manager for Exploration and Geology, Mongolian Mining Corporation. Mr. Ballantine is a member of the Australasian Institute of Mining and Metallurgy (Member #109105) and has over 24 years of experience relevant to the style and type of coal deposit under consideration and to the activity which is being undertaken to qualify as a Competent Person as defined by the Australasian Code for Reporting of Exploration Results, Minerals Resources and Ore Reserves, The JORC Code (2004 Edition). Mr. Ballantine consents to the inclusion in the release of the matters based on this information in the form and context in which it appears. The estimates of the Coal Resources set out in Table 2 presented in this report are considered to be a true reflection of the UHG coal Resources as at 31 December 2012 and have been carried out in accordance with the principles and guidelines of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2004 Edition).

(ii) Due to rounding, discrepancy may exist between sub-totals and totals.

Minimal exploration related activities continued in 2013, with the scope reduced in line with the Group's focus on cost reduction. Drilling contractor costs were agreed to be deferred until second half of 2014, improving liquidity in 2013, and work completed was tailored to minimum required to ensure sufficient detailed understanding of coal measures ahead of the highwall advance. Commencing in the fourth quarter of 2013, thirteen boreholes were drilled totaling 3,525 metres of drilling. From this work, 500 samples were analysed at the Group's onsite laboratory. Modeling and interrogation of data collected thus far has yet to commence.

Due to the review process of the Australian Guidelines for Estimating and Reporting of Inventory Coal, Coal Resources and Coal Reserves in relation to the JORC (2012) standard has not yet been completed, the Group is waiting to commit to timing with regard to further Resource update pending finalised requirements. With no further exploration data available, no material change is applicable to the previously reported JORC Resource. For reference, since 30 June 2012 a total of 14 Mt as measured by official mine survey as at 31 December 2013 has been mined. This represents depletion from the stated Resource.

BN Deposit

The Group's geological team last completed exploration work at BN in 2011 to 2012 under Exploration License 4326X covering the Tsaihkar Khudag ("**THG**") area. A total of 9,963 metres of drilling was carried out during this period, with 32 boreholes completed and geophysically logged. Analytical laboratory test work was also performed on a total of 2,307 coal samples collected.

Consequently, application was submitted to the Mineral Resources Authority of Mongolia and Mining License MV-017336 ("**THG mining license**") of 8,340 hectares area was granted to the Group on 24 June 2013. This was in addition to the pre-existing mining license 14493A ("**BN mining license**") with 4,482 hectares area, both covering the BN coking coal deposit area ("**BN Deposit**"), located in Khankhongor soum (county) of Umnugobi aimag (province).

McElroy Bryan Geological Services Pty Ltd most recently provided a JORC Resources statement for the BN mining license area as at 30 June 2012. This was estimated to contain 282 Mt of JORC Measured, Indicated and Inferred Coal Resources, based on an in situ density including assumed 6% total moisture content (Table 3).

Table 3. BN mining license area Coal Resource by depth and category as at 30 June 2012 (Note):

Total Coal Resource Depth limit from topographic surface	Resource Category (Mt) Measured	Indicated	Inferred	Total (M+I)	Total (M+I+I)
Subcrop to 100m	45	9	–	54	54
From 100m to 200m	66	15	–	81	81
From 200m to 300m	58	19	–	77	77
From 300m to 400m	40	30	1	70	70
Below 400m	–	–	–		
Sub-Total above 300m	168	43	–	212	212
Sub-Total below 300m	40	30	1	70	70
Total	**207**	**73**	**1**	**281**	**282**

McElroy Bryan Geological Services Pty Ltd most recently provided a JORC Resource statement for the THG Mining License area as at 30 April 2013. This was estimated to contain 55 Mt of Inferred Coal Resource, based on an in situ density including assumed 6% total moisture content (Table 4).

Table 4. THG mining license area JORC Coal Resource by depth and category as at 30 April 2013, (Note):

Total Coal Resource Depth limit from topographic surface	Resource Category (Mt)				
	Measured	Indicated	Inferred	Total (M+I)	Total (M+I+I)
Subcrop to 100m	–	–	13	–	13
From 100m to 200m	–	–	20	–	20
From 200m to 300m	–	–	15	–	15
From 300m to 400m	–	–	7	–	7
Below 400m	–	–	–	–	–
Sub-Total above 300m	–	–	48	–	48
Sub-Total below 300m	–	–	7	–	7
Total	**–**	**–**	**55**	**–**	**55**

Note:

(i) Technical information in the BN and THG Coal Resource estimation reports has been compiled by Mr. Paul Harrison, Senior Geologist, McElroy Bryan Geological Services Pty. Ltd. Mr. Harrison is a member of the Australasian Institute of Mining and Metallurgy (Member #110251) and has over 25 years of experience relevant to the style and type of coal deposit under consideration and to the activity which is being undertaken to qualify as a Competent Person as defined by the Australasian Code for Reporting of Exploration Results, Minerals Resources and Ore Reserves, The JORC Code (2004 Edition). Mr. Harrison consents to the inclusion in the release of the matters based on this technical information in the form and context in which it appears. The estimates of the Coal Resources presented in these reports are considered to be a true reflection of the BN Coal Resource in Table 3 as at 30 June 2012 and THG Coal Resource in Table 4 as at 30 April 2013, and have been carried out in accordance with the principles and guidelines of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2004 Edition).

(ii) Due to rounding, discrepancy may exist between sub-totals and totals.

During 2013, the Group conducted no further exploration within the BN or THG mining license areas. Ongoing desktop reviews are in progress, with the Group awaiting finalisation of the Australian Guidelines for Estimating and Reporting of Inventory Coal, Coal Resources and Coal Reserves in relation to the JORC (2012) standard before committing to further Resource estimate revision.

Since 30 June 2012, as part of the Group's strategic response to the coal market situation, there has been minimisation of mining activity within the BN mining license area with priorities focused on UHG. This is also aligned with guidance resulting from the integrated mining and processing schedule developed to maximise synergistic value achievable from BN and UHG mines. As such, no material change to previously reported BN Resource was considered.

Since 30 April 2013, with no mining conducted within the THG mining license, no material change to previously reported THG Resource was considered.

Open-cut Coal Reserves

In 2013, RPM updated the Group's long-term mining schedules at UHG and BN, preparing an integrated LOM study underpinning update of JORC Coal Reserve estimations at both of the UHG and BN deposits which were stated as of 31 December 2012.

Coal Reserve estimation was based on open cut, multi seam, truck and excavator mining methods as currently used at both UHG and BN mines, with both ex-pit and in-pit dumping of waste considered. Categorisation of coal seam propensity for coking and thermal product was guided by Mr. John Trygstad from Norwest Corporation ("**Norwest**") within the integrated LOM study.

Industry standard whittle pit optimisation software was used to generate a series of nested pit shells corresponding to varying revenue factors, simulating a range of coal selling prices. These three dimensional approaches provided a series of pit shells reflecting incrementally different economic scenarios as impacted by changes such as depth limitation, mining cost or coal price variance.

Practical pit designs including ramp accesses to coal were then created within the selected optimised pit shells, representative of the stated revenue assumptions with the study. The pit optimisation algorithms used were limited to a vertical depth of 300 metres at UHG and 350 metres at BN, based upon current geotechnical knowledge regarding slope stability criteria of each deposit.

Through application of estimated mining and metallurgical factors, mineable in situ coal within the pit shell was converted to ROM and product coal quantities. From this, mine schedules were able to be sequenced effectively to maximise value derived from open-pit mining operations.

Combined, the total ROM Coal Reserve under the Group's control increased from 460 Mt as at 31 December 2011 to 480 Mt as at 31 December 2012, an increase of 20 Mt, excluding the depletion of 9.4 Mt Reserve as a result of mining activity at UHG and BN mines in 2012.

Within the total combined ROM Coal Reserve quantity, the coking coal component increased by 63 Mt, including allowance for mining depletion during 2012, with the thermal coal Reserve component decreasing correspondingly by 33 Mt.

The open-cut ROM Coal Reserve for the UHG coal deposit was estimated as at 31 December 2012, based on an as-received basis with 5% total moisture (Table 5).

Table 5. UHG ROM Coal Reserve (Note):

ROM Coal Reserve	Reserve Category (Mt)		
Coal Type	**Proved**	**Probable**	**Total**
Coking	155	81	236
Thermal	64	16	80
Total	**218**	**97**	**315**

The UHG ROM Coal Reserve was previously reported by Norwest to contain an estimated 275 Mt as at 31 December 2011. The Reserve reported by RPM was estimated to contain 315 Mt as at 31 December 2012. Compared to previously reported Reserve figures, including 9 Mt attributable to coal mining depletion during the period between 31 December 2011 and 31 December 2012, an additional 49 Mt from Coal Resource identified on 30 June 2012 Resource estimate was also determined as economically mineable via open-pit methods.

With no further exploration data available, nor further update of LOM plan considered, no material change is applicable to the previously reported JORC Reserve. For reference, since 31 December 2012 a total of 9 Mt as measured by official mine survey as at 31 December 2013 has been mined. This represents depletion from the stated ROM Reserve.

The open-cut ROM Coal Reserve for the BN coal deposit was estimated as at 31 December 2012, based on an as-received basis with 6% total moisture (Table 6).

Table 6. BN ROM Coal Reserve (Note):

ROM Coal Reserve	Reserve Category (Mt)		
Coal Type	Proved	Probable	Total
Coking	118	22	140
Thermal	23	2	25
Total	**141**	**24**	**165**

Under previous ownership, BN ROM Coal Reserve was previously reported by SRK Consulting ("**SRK**") totaling 185 Mt as at 31 March 2011. As an outcome of independent technical studies, conducted during the transition of ownership, it was confirmed that the final total Reserve was approximately 189 Mt applying the same Reserve calculation parameters, as it was defined and stipulated in the relevant share purchase agreement.

After acquisition in June 2011, the Group has begun to conduct its own studies and analyses for the future development of the BN mine in synergy with the UHG mining schedule. As such, the Group guided RPM to re-estimate the BN ROM Coal Reserve using modified Reserve calculation parameters, including mine design, scheduling and cost estimation parameters based on the Group's actual operating experience. As part of this re-estimation, the BN coal quality was reviewed on the basis of integrating BN and UHG coal mining, blending and processing operations.

The Coal Reserve estimate reported by RPM totaling 165 Mt as at 31 December 2012 does not include any coal from the THG mining license area, due to it containing inferred category of Coal Resource only. With approximately 1 Mt attributable to the coal mining depletion during the period between 31 March 2011 and 31 December 2012, the difference between the SRK and RPM estimations is an overall decrease of 19 Mt of BN ROM Coal Reserve. This is as result of changes to Reserve calculation parameters. However, using this integrated mining, blending and processing approach, the estimated coking coal component of the Reserve at BN has increased by 19 Mt, whilst quantity of the thermal coal has decreased. The proportion of a coking coal within the total BN ROM Coal Reserve has increased to 85%.

Based upon mine survey measurement, production activity in 2013 has depleted the BN ROM Coal Reserve by less than 1 Mt, and is considered to impart no material change.

Importantly, the integrated LOM mining study RPM was developed inclusive of complementary coal mining, blending and processing schedules for UHG and BN mines. It demonstrated potential to conduct sustainable operations with up to 15.8 Mtpa combined ROM coking coal output, for a period between 2013 and 2040. The thermal coal production volumes from UHG and BN mines were scheduled in this study to ramp up in 2016, in anticipation of completion of construction of the UHG-GS Railway project.

Note:

(i) The estimate of Coal Reserve presented above has been carried out in accordance with the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves" (December, 2012). Technical information in the UHG and BN Coal Reserve estimation reports has been compiled by Mr. Greg Eisenmenger, who is a Member of the Australasian Institute of Mining and Metallurgy. He is a full time employee of RPM and has extensive experience in the mining industry, working for over 30 years with major mining companies, mining contractors and consultants. During this time he has either managed or contributed significantly to numerous mining studies related to the estimation, assessment, evaluation and economic extraction of coal in Australia, New Zealand, Indonesia, Mozambique and Mongolia. He has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity he is undertaking to qualify him as a Competent Person as defined in the 2012 Edition of the JORC Code. Mr. Eisenmenger consents to the inclusion in the release of the matters based on this information in the form and context in which it appears.

(ii) Due to rounding, discrepancy may exist between sub-totals and totals.

Production and Transportation

Coal Mining

Total ROM coal production achieved by the Group in 2013 amounted to 9.7 Mt, up by 2.7% on 2012 performance. Access to this coal required movement of 53.9 million bank cubic metres ("**Mbcm**") of overburden, at a stripping ratio of 5.6 bcm per ROM tonne. On the basis of total material movement, production output from the Group's mining activities exceeded 60 Mbcm for the first time, reaching 60.4 Mbcm.

Compared to 2011 and 2012 production, there was less fluctuation between the first and second half stripping ratios, as seen in Figure 7. Annual stripping ratio remained steady in comparison to 2012, despite increasing depth of mining. Second half stripping ratio was again lower, as a result of concentrated drawdown of ROM stockpile inventories in the first half requiring less coal mining to meet CHPP feed requirements.

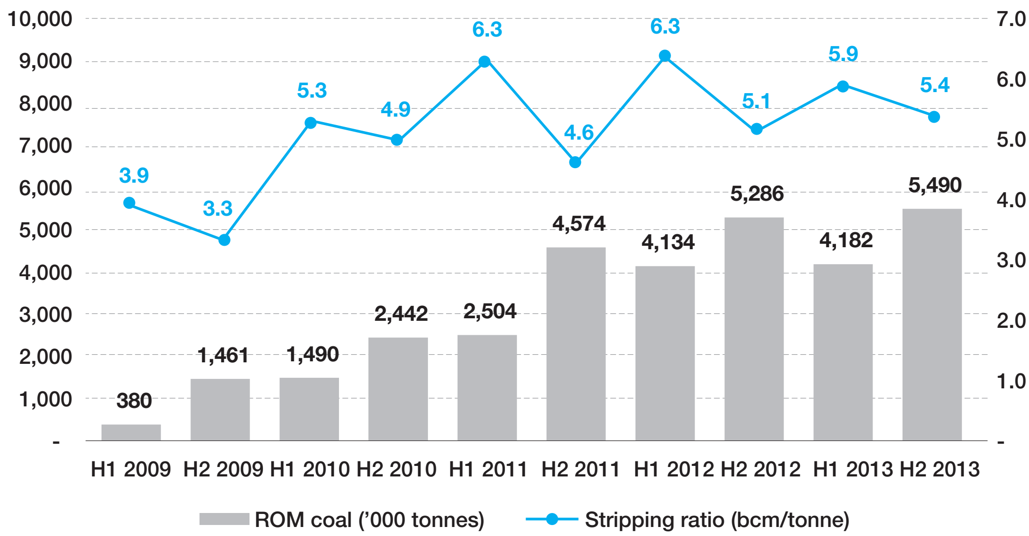
The Group has focused on improving efficiency, minimising cash costs and reducing operational cash outflows throughout 2013, with site based operational activities streamlined to support these strategies. In the first half of 2013, mining operations at UHG and BN mines were integrated under unified management, specifically with regard to mining, maintenance and technical services. Functional support services were also integrated as part of the Group wide consolidation measures.

Unification allowed for controlled reduction of output from BN mine in the first half of 2013 without affecting CHPP feed requirements, via redeployment of personnel and equipment from BN to UHG. The overall benefit of this approach was reduced cost through off-hiring of rental equipment previously in use, and delay to recruitment and training of additional workforce in support of ongoing fleet expansion at UHG.

Whilst production output from BN mine resumed in the second half of 2013, focus on reducing cash cost and cash outflow did not abate. Measures were taken at both BN and UHG to ensure that equipment was as productive as possible, allowing reduced equipment deployment to achieve planned output with subsequent cost reductions achieved. Major initiatives to reduce mining costs included increased utilisation of ROM stocks, delay of waste stripping, and shortening of waste haulage distances as possible. The last of these measures has capitalised on some creative engineering, which will not impact in later stages of mine development, with short haul waste dump areas exploited in locations not previously considered.

Continued effort to refine mining and blasting services contractor key performance indicator ("**KPI**") metrics, to ensure alignment of values with delivery of coal chain efficiency, has delivered evident and sustained improvement. Mining contractor KPIs were updated from the third quarter of 2013, and agreements with blasting services contractors were renewed in the fourth quarter of 2013. Many of these revised KPIs were implemented to target cost reductions, with main initiatives targeting increased mining truck tyre life and cheaper blend of explosives used, whilst several were clearly aimed at reducing costs through improved efficiencies such as indexed excavator and drill productivities and targeted reductions in ROM coal re-handle.

Figure 7. The Group's historical semiannual ROM coal production volumes and actual stripping ratio (in bcm per ROM coal tonne):

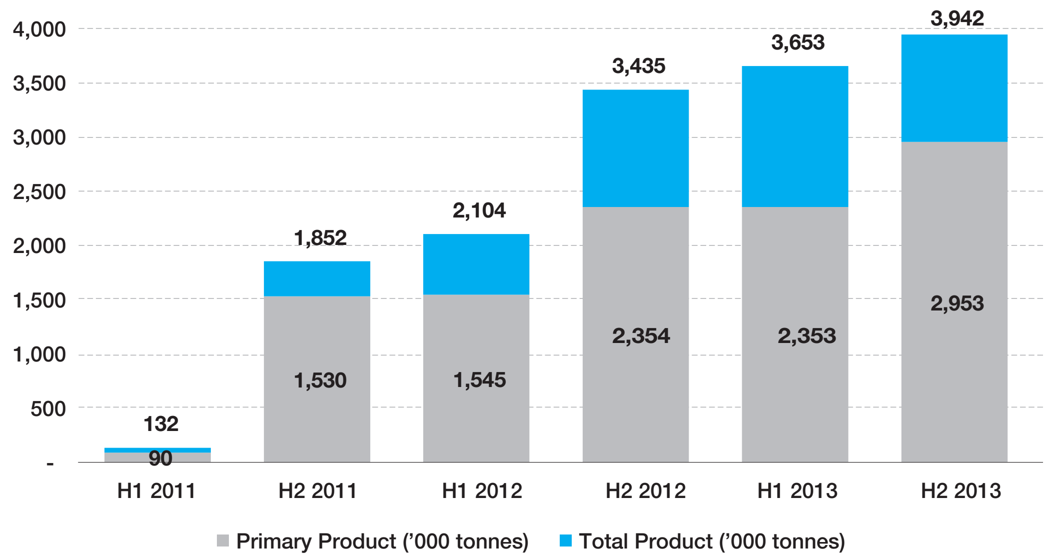


Coal Processing

During 2013, the Group processed a total of 10.7 Mt of ROM coal, including 0.1 Mt of feed under contract washing arrangement for third parties. This was achieved utilising only two of the now three available CHPP modules, and represented an increase of 44.5% year-on-year.

The Group's total washed product derived from this feed included 5.3 Mt of coking coal, up 36.1% year-on-year, and 2.3 Mt of thermal coal, up 39.6% year-on-year. Historical semiannual production is shown in Figure 8.

Figure 8. The Group's historical semiannual total and primary processed coal production volumes:



Encouragingly, CHPP production exceeded nameplate capacity of 5 Mt per Module per annum, despite some interruptions to operation posed by Module 3 commissioning requirement for integration into the combined materials handling system. Eclipsing of nameplate capacity was primarily due to improved CHPP availability, a notable achievement within context of tightened budget and that effective from 1 January 2013, the Operational Management Contract with Sedgman was ended.

In the first half of 2013, as part of the Group's efforts to reduce operational cash outflows and maintain suitable liquidity, ROM coal mining volumes were adjusted down on the basis of scheduling more CHPP feed from existing stockpile inventories. Whilst some impact on yield resulted (as expected, due to increased feed proportion of lower grade coals), overall the approach enabled reduction in cash outflow and unit cash cost during the period as was the focus of the Group.

As forecast and communicated previously, primary yield in the first half of 2013 was reduced (46.1%), but rebounded strongly in the second half of 2013 (53.9%), resulting in an overall primary yield in 2013 of 50.1%. The higher yield experienced in the second half of 2013 is expected to be maintained now that ROM stockpile inventories of lower grade coals have been largely depleted. Secondary yield performance results were converse, with higher (25.4%) recorded in the first half of 2013 compared to lower (18.0%) in the second half of 2013 for overall 2013 secondary yield of 21.6%.

Construction milestones were reached in relation to CHPP development in 2013, with state commissioning completed for both the third processing module and BFP fine tailings dewatering plant projects. Installed nameplate capacity for the UHG CHPP is now 15.0 Mt ROM coal feed per annum, based upon 850 tonnes of ROM coal per hour and 6,000 operating hours per calendar year. Sufficient processing capacity is now installed as planned for intended and communicated LOM coking coal production rates, with no further major capital works related to CHPP planned.

The newly commissioned BFP will serve to reduce the Group's dependence upon raw ground water extraction, reducing both environmental footprint and the cost of operation. With expected recycling of greater than 60.0% of water utilised within the fines processing circuits, this facility will double the rate of water recovery compared to the existing, traditional system of tailing dam reclamation, through avoidance of water evaporation. Operation of the BFP commenced in December 2013 with ramp up to full capacity and fine tuning expected to progress in the first half of 2014.

Transportation and Logistics

Coal Transportation

During 2013, the Group continuously focused on maximising utilisation of its transport and logistics assets consisting of 272 km of paved road connecting the Group's mines to the border of Mongolia, 300 double-trailer heavy haul trucks as well as coal storage and handling facilities at mine gates and border of Mongolia that are all under the Group's full control and ownership.

Together, the Group maintained full capacity to handle and transport about 12 Mtpa of coal, which was sufficient to move and handle coal products from UHG and BN mines to the GM border port in China, via its coal handling, custom bonded stockpile facility at Tsagaan Khad ("**TKH**") on the Mongolian side of the border.

As a result, the Group's owned fleet has transported a total of 6.8 Mt of coal on its main long-haul section between UHG and TKH, representing an increase of 65.9% compared to 4.1 Mt transported on the same route in 2012 by owned fleet.

In achieving this level of production on the long-haul section, the Group was able to take complete control over the domestic movement of coal with its own trucks, eliminating dependency on third party contractors on this transportation section. Doing so required improvement in operational efficiency of owned fleet and has consequently resulted in a significant reduction of unit cost performance. Unit cost of transport per tonne in this sector decreased to a record low USD8.1 per tonne, down by USD3.8 per tonne compared to the results of USD11.9 per tonne in 2012, an improvement of 31.9% year-on-year. The increased operational efficiency is demonstrable in roundtrip performance on the long-haul section, where round trips per truck per month have increased from an average of 12 in 2012 to 20 in 2013, an improvement of 66.7%.

Third party contractors continued to be utilised by the Group in 2013 for cross-border transportation between TKH and GM. Sufficient capacity and control on coal movement across the border between Mongolia and China was maintained to allow export transportation of approximately 5.8 Mt on this short-haul section in 2013.

The Group has continued to support its heavy haul truck fleet which maintained an average of 85.0% availability in the period reported, largely as a result of facilities available at its dedicated 4,300 square metre truck maintenance and repair workshop at UHG, and auxiliary service truck facility at TKH completed in 2013.

The 240 km paved road between UHG and the GS border crossing in Mongolia (the "**UHG-GS Road**"), has been relied upon by the Group as primary support infrastructure, enabling delivery of products. With this infrastructure in place, the Group has been able to achieve large improvements in transportation reliability and efficiency, whilst third party coal and other freight movement on the UHG-GS Road has been allowed via toll fee arrangement. The 32 km paved road between BN and UHG mines has proven effective in maintaining capacity to support interconnected operation of the BN and UHG mines, with the road allowing efficient transport of coal from the BN mine to coal processing facilities at UHG.

In addition to the expansion at the GS border checkpoint on the Mongolian side, (co-funded jointly by the Group and Erdenes MGL in 2012), the Group has seen infrastructure improvement at the GM border checkpoint on the Chinese side in 2013. Improvement consisted of expansion of the truck “wait-and-clear road” in direction of exit from GM toward Mongolia, as well as commissioning of an extra five toll gate lanes, doubling capacity in operation to ten lanes for truck in-and-out crossing. This improvement is expected to increase border-crossing capacity at GS-GM to an estimated 25-30 Mtpa, sufficient to eliminate potential bottleneck on both sides of the border crossing, supportive of the Group’s operational objectives.

UHG-GS Railway

Resolution No. 121 of the GoM dated 3 November 2013, ordered consolidation of various railway projects in Mongolia into a unified railway project (the “**Project**”), to be managed and implemented under government authority. In relation to this, the Group negotiated with the GoM, represented by the MRT, the State Property Committee and MTZ, on measures to be taken regarding implementation. Conditions of settlement were outlined in the Agreement, executed and signed on 6 May 2013.

Pursuant to the Agreement, the Parties agreed upon terms and conditions according to which the Concession Agreement, entered by and between the GoM and the Group on 31 May 2012, was terminated. The major terms under the Agreement are as follows:

- Compensation for all costs incurred by the Group in relation to the construction of the UHG-GS Railway confirmed and agreed MNT83,734,932,315, or approximately USD50.6 million at balance sheet date exchange rate as at 31 December 2013;

- Parties will enter into negotiation regarding potential investment in the Project. Depending on the outcome of the negotiation, the above compensation amount could be converted into equity of a special purpose enterprise to be established by the GoM to implement the Project and/or in cash;

- The Group will be granted access to 50% of the capacity of the UHG-GS Railway; and

- Existing contracts and obligations for the construction of the UHG-GS Railway will be reassigned to MTZ and/or its designated entity.

Following execution of the Agreement, the Group commenced discussion with the GoM regarding potential investment into the Project in which the Group has an option to convert its compensation amount into equity of the special purpose enterprise where the GoM invites potential international and domestic investors. In the meantime, related project documents and contracts along with some project personnel have been transferred to the GoM and its contractors from the Group.

Cross Border Railway (GS-GM)

On 16 August 2013, the GoM adopted Resolution No. 299 regarding necessary actions to be taken to support coal export of Mongolia. As part of the support, the GoM decided to build narrow gauge (1,435 mm) cross border railway at connecting the ports of GS in Umnugobi province and GM port in China ("**Cross border railway**"), with target completion by end of 2014. Subsequently, on 25 October 2013 the Group signed a Memorandum of Understanding with fellow coal mining companies in the Tavantolgoi region, including Erdenes Tavantolgoi and Tavantolgoi companies, as well as Shenhua Group Corporation of China, to jointly develop the Cross border railway as a Consortium of Mongolia-China coal companies. During an official visit by the Prime Minister of Mongolia to China on 25 October 2013, the Consortium signed a subsequent Memorandum of Understanding with MTZ to develop the Cross border railway.

As of 31 December 2013, the Group has been in process of discussions with Mongolian and Chinese counterparts in combined effort to implement the Cross border railway, and has been in negotiation regarding potential involvement in development of the project. Successful construction and completion of this project should bring significant benefits to the Group, principally improvement in efficiency and reduction in cost of short-haul cross border coal transportation between TKH and GM. This, in conjunction with immediate loading into rail wagons, will increase the cost competitiveness of Mongolian sourced coal in the Chinese market and increase the capability for geographical market penetration of the Group's products in China. Increased customer base will allow for improved strength in pricing negotiation and general market ability to absorb increased production.

UHG-GS Paved Road

On 16 August 2013, the GoM adopted Resolution No. 299 regarding necessary actions to be taken to support coal export of Mongolia. As part of the support, the GoM decided to take over under state ownership the existing UHG-GS Road along with the border crossing facilities at GS. This decision was implemented under guidance from the Ministry of Economic Development where Erdenes MGL was appointed to exercise state ownership with compensation payable to the Group.

The UHG-GS Road was solely funded and constructed in 2011 by the Group under Build-Operate-Transfer ("**BOT**") concession rights for a period of 10 years. In order to implement this decision to take over the paved road and transfer into state ownership prior to expiry of BOT term, the GoM appointed a working group consisting of representatives of relevant ministries, including Ministry of Economic Development, Ministry of Finance, MRT and Erdenes MGL, who worked through August to November 2013 determining the amount of the compensation payable.

Based on findings of the working group, the Group negotiated and agreed with GoM on the compensation amount and signed the Agreement (the "**Agreement**") to transfer road assets with Erdenes MGL on 8 December 2013. As agreed with the parties, the Agreement to transfer road assets was to become effective on the date of actual payment settlement, which was received on 13 February 2014, with all subsequent legal documents executed. The Group received net consideration of MNT157,847,184,615 as compensation, equal to approximately USD90.3 million as of the date of receipt of payment.

The Group, together with prospective users of the paved road including Erdenes Tavantolgoi and Tavantolgoi companies, agreed and signed a subsequent Paved Road Operations and Maintenance Agreement ("**O&M Agreement**") with Erdenes MGL on 8 December 2013. Under the O&M Agreement, the Group will continue to be jointly involved in the operations and maintenance of the paved road via involvement in a special purpose joint venture company, to be appointed and managed jointly by the mining companies using the road, whom are ultimately responsible for the operation and maintenance of the road.

Transfer of the paved road to state ownership is expected to increase efficiency of road utilisation, as common infrastructure will effectively be shared among mining companies, while decreasing unit cost of coal transportation between UHG and Tavantolgoi coal mines to the GS border port. The Group maintains unrestricted access to use the road capacity on non-discriminatory, equal treatment basis.

Occupational Health, Safety and Environment

Consolidation of support services within the Group during 2013 guided Occupational Health, Safety and Environment ("**OHSE**") measures being implemented toward international best practice, with efforts targeted to upgrade and standardise internal controls across subsidiary companies.

Commitment to developing employees to understand and implement systematic policies, plans and procedures continued throughout the year. Example of this included 24,026 individual training sessions recorded targeting OHSE specific topics, totaling 44,843 man-hours of training delivered to employees, contractors and visitors.

Within the Group during the year 2013, over 8.1 million man-hours were worked by employees and contractors on managed sites. During this time a total of 10 Lost Time Injuries ("**LTIs**") were recorded, resulting in an overall Lost Time Injury Frequency Rate ("**LTIFR**") of 1.2 LTIs per million man-hours worked.

The Group's performance in terms of LTIFR is again favorable in comparison to the industry statistics publicly reported. Examples of comparable industry statistics, taken from Provisional 2011-2012 data reported by Safe Work Australia, would include comparison against the following activities (all of which included engaged employees and contractors within the Group managed operations in the calculation of reported LTIFR):

- Coal mining – 3.2
- Exploration – 6.6
- Electricity supply – 2.3
- Water supply, sewerage and drainage services – 3.0
- Accommodation, cafes and restaurants – 8.1
- Road freight transport – 13.3

In contrast to the above efforts and performance, tragically in November 2013 an incident occurred inside UHG mine whereby despite best efforts of the internal Emergency Response Team and others immediately upon the scene, fatality of an MMC employed maintenance technician resulted.

Following the incident, the Group has exceeded statutory requirements in terms of assistance to the family of the deceased. The tragedy has served as further encouragement for continued cultivation of quality safety management, and development of inherent safety culture amongst all employees. The cause and liabilities arising from the incident are still under review by relevant authorities.

Marketing and Sales

In 2013, the Group continued to follow its main objective to produce and sell washed coking and thermal coal products under its own brand name, further strengthening its position as a reliable supplier of high quality coking coal products and expanding its end-user customer base in the target market region, within China. The Chinese market remains the Group's primary destination for its coking and thermal coal products, where the Group faced strong competition under continued price pressure throughout the reporting period among global coking coal exporters to China. Successfully, the Group established itself as the leading exporter of washed coking and thermal coal from Mongolia, leveraging on its competitive advantage of integrated coal production, processing, transport and marketing platform, and accounted for 31.5% of total coal export from Mongolia.

Further improvement in cost and efficiency in 2013 enabled the Group to continue to improve its competitive position in its principal market against global suppliers, and thus helped the Group to maintain its market and brand name as a long term sustainable and reliable supplier.

Throughout 2013, the Group witnessed continued pressure in global coking coal price. The ASP for the Group's washed coking coal decreased 15.0% from USD108.4 to USD92.1 per tonne DAP at GM. However, the Group was able to keep relatively slower pace in such downward trend compared to the sharp decline in price of 22.4% observed for equal quality coking coal in Tangshan area, a major steel producing region of China. Besides continued pressure on price, increased supply at seaborne market drove some Chinese coking coal consumers located in coastal areas to buy more seaborne coal in preference to other sources. Such a situation focused the Group to divert major supply from Hebei, Tangshan market to more inland markets towards the second half of the year where prices were less volatile than coastal areas.

Despite the challenging market condition, the Group was able to increase sales volume of its primary product, washed HCC, to 4.3 Mt representing about 26.5% year-on-year growth, while keeping total volume of coal sales at 5.7 Mt in 2013, including 1.3 Mt of middlings.

During 24 and 25 October 2013, the Prime Minister of Mongolia paid official visit to China and held talks with the Prime Minister of China on broader economic cooperation of Mongolia and China and signed an agreement outlining key areas of cooperation for the development of strategic partnership in the medium and long term between the two countries. As part of the cooperation, during this visit Mongolian coal producers, including the Group, signed a Memorandum of Understanding with Shenhua Group Corporation of China to cooperate on export of 1 billion tonnes of coal in the next 20 years from Mongolia to China. Moreover, Mongolian and Chinese companies agreed to create a partnership, where the Group is member, to improve infrastructure capacity for coal export between the two countries and signed a memorandum of understanding with MTZ on 25 October 2013 in the presence of the Prime Ministers of Mongolia and China.

The Group expects that significant rebound in steel and its upstream raw material markets will not eventuate in 2014 unless global economic recovery accelerates leading to significant impact on the China market, and/or the Chinese government reconsiders stimulus measures to boost their domestic economy.

As market sentiments change and infrastructural developments open more opportunities, besides focusing on increasing its market share in the highest selling price markets, the Company continues to explore potential new markets that are emerging as result of enabling infrastructure developments.

OUTLOOK AND BUSINESS STRATEGIES IN 2014

In 2013, the global coking coal market continued to experience significant downward pressure on coking coal prices due to increased supply and the management expects that this trend will continue in 2014 as well. The management maintains a positive outlook over the long term as the fundamentals of demographics associated with increasing industrialisation will continue to create demand for steel across Asia and other emerging markets. However, the industry will ultimately need to reach a more balanced equilibrium between supply and demand, in order to see pricing improvement.

The management believes that with all major development project related capital expenditure complete, liquidity improvement initiatives and maintenance of competitive cost structure by virtue of its robust production profile and efficient cost control measures, the Company is well positioned to demonstrate sufficient flexibility to face headwinds in this more challenging environment.

The Company intends to pursue the following key strategies in order to maintain and enhance its position as a leading Asian washed coking coal producer: (i) maximising assets utilisation to drive unit fixed costs down; (ii) supporting initiatives to improve transportation infrastructure and capability, in particular cross border railway development, to gain access to the Chinese railway network to reach customers in China; (iii) exploring opportunities for expanding and diversifying its business operations through potential strategic cooperation and joint ventures agreements; and (iv) continuing its strong commitment to safety, the environment and socially responsible operations.

In 2014, the Group will aim to maximise utilisation of its CHPP capacity by processing ROM coal sourced from the Group's own mines and also neighboring mines under mutually beneficial contract washing cooperation arrangements. Regarding transportation and logistics, the management will support infrastructure development to enable further cost reductions, in particular the cost of cross-border transportation between TKH and GM, with continued dialogue in progress between Mongolian and Chinese authorities to build the cross border railway.

The management will continue to strengthen existing and create new long-term relations with its end-user customers. Additionally, the management will actively look at strategic long term partnerships to expand its relations and presence in China.

FINANCIAL REVIEW

The Group navigated through a challenging year marked by adverse global coking coal market conditions. The Chinese coking coal market experienced increased supply from domestic mines which continued to expand, and import momentum remained robust which led to depressed ASP where demand remained resilient. The Group continued its dedication to improving operational efficiency and seamless execution of cost control in Group-wide operations, which resulted in higher gross profit in 2013 year-on-year, even whilst the Group generated lower sales revenue in 2013 compared to 2012 as result of lower ASP.

The Group's revenue for the year declined by 7.8% to USD437.3 million for the year ended 31 December 2013 (2012: USD474.5 million) due to unfavorable pricing environment. Notably, revenue of USD392.4 million was generated from HCC sales, representing more than 89.7% of total revenue in 2013 (2012: USD371.2 million and 78.2%, respectively).

In 2013, the Group's pricing for its washed coking coal products followed the market trend, and as a result ASP of HCC decreased by 15.0% to USD92.1 per tonne from USD108.4 per tonne in 2012. The pricing of middlings, a high calorific value thermal coal by-product in the process of washing raw coal also faced pressure during the course of the year. The ASP of middlings was USD29.9 per tonne in 2013 (2012: USD36.9 per tonne).

The Group's sales volume of coal products reached 5.7 Mt in 2013, which is equivalent to 2012, representing only slight increase of 0.1 Mt, or 1.8%. In 2013, the Group exported 4.3 Mt of HCC and 0.03 Mt of SSCC (2012: 3.4 Mt and 0.2 Mt, respectively). In addition, the Group exported 1.3 Mt of middlings in 2013 (2012: 1.6 Mt).

For the year ended 31 December 2013, the Group had two customers that individually exceeded 10.0% of annual revenue, with purchase amounts of USD196.2 million and USD108.1 million respectively. In 2012, the Group had derived more than 10.0% of its annual revenue from three customers, with purchase amounts of USD168.3 million, USD115.6 million and USD59.8 million, respectively.

The breakdown of sales volume and revenue by individual coal product type and ASP for individual coal product types for the periods are indicated in Table 7.

Table 7. Sales volume, revenue and ASP:

	Year ended December 31		
	2013	**2012**	**Change**
Sales volume (Mt)	**5.7**	5.6	1.8%
HCC	**4.3**	3.4	26.5%
SSCC	**0.0**	0.2	-100.0%
Middlings	**1.3**	1.6	-18.8%
Raw coal *(Note)*	**0.1**	0.4	-75.0%
Revenue ('000 USD)	**437,339**	474,480	-7.8%
HCC	**392,487**	371,160	5.7%
SSCC	**2,452**	17,234	-85.8%
Middlings	**38,530**	57,341	-32.8%
Raw coal *(Note)*	**3,870**	28,745	-86.5%
ASP (USD/tonne)	**76.4**	84.8	-9.9%
HCC	**92.1**	108.4	-15.0%
SSCC	**71.2**	78.1	-8.8%
Middlings	**29.9**	36.9	-19.0%
Raw coal *(Note)*	**27.3**	72.9	-62.6%

Note: Raw coal sold in 2013, represents raw thermal coal, which is a non-caking coal mainly used in power generation, and it differs from raw HCC reported in 2012.

Cost of Revenue

Due to continued volatility in global economic conditions and depressed commodity prices, the Group strengthened primary focus on cost management, realising a number of incremental cost savings during 2013. Despite increase in sales volume, the Group's decreased costs in processing, handling, transportation, logistics, royalties and fees and transportation and stockpiles losses resulted in decreased total cost of revenue from USD420.4 million in 2012 to approximately USD361.5 million in 2013.

The Group's cost of revenue primarily consists of mining costs, processing and handling costs, transportation and logistics costs, and costs related to site administration, stockpiles and transportation losses, and governmental royalties and fees.

The following table presents, for the periods indicated, the Group's total and individual costs of revenue in terms of amount and also unit costs of revenue calculated on a per tonne total product sold basis (Table 8):

Table 8. Total and individual costs of revenue and unit costs of revenue:

	Year ended December 31			
	2013	2012	**2013**	2012
	USD'000	USD'000	**USD/tonne**	USD/tonne
Cost of revenue	**361,485**	420,400	**63.1**	75.1
Mining cost	**137,268**	123,541	**24.0**	22.1
Variable cost	**67,484**	70,398	**11.8**	12.6
Fixed cost	**52,806**	49,921	**9.2**	8.9
Depreciation and amortisation	**16,978**	3,222	**3.0**	0.6
Processing cost	**38,824**	51,031	**6.8**	9.1
Variable cost	**16,096**	19,074	**2.8**	3.4
Fixed cost	**6,336**	15,174	**1.1**	2.7
Depreciation and amortisation	**16,392**	16,783	**2.9**	3.0
Handling cost	**12,277**	13,164	**2.1**	2.4
Transportation cost	**96,748**	130,871	**16.9**	23.3
Logistics cost	**18,028**	23,252	**3.1**	4.2
Variable cost	**5,791**	6,700	**1.0**	1.2
Fixed cost	**7,485**	9,802	**1.3**	1.8
Depreciation and amortisation	**4,752**	6,750	**0.8**	1.2
Site administration cost	**12,369**	10,938	**2.1**	2.0
Transportation and stockpile losses	**7,850**	19,478	**1.4**	3.4
Royalty and fees	**38,121**	48,125	**6.7**	8.6
Royalty	**26,621**	34,756	**4.7**	6.2
Air pollution fee	**5,266**	6,033	**0.9**	1.1
Custom fee, VAT	**6,234**	7,336	**1.1**	1.3

Mining costs consist of costs associated with overburden and topsoil removal and ROM coal extraction, including the costs related to mining staff and equipment together with base and performance fees paid to the mining contractor, drill and blasting contractor fees, and costs paid to fuel suppliers. In 2013, the Group's total mining costs were USD137.3 million (2012: USD123.5 million). Depreciation and amortisation experienced a sharp increase from USD3.2 million in 2012 to USD17.0 million in 2013 which was associated with the change in accounting standards. According to IFRIC 20, deferred stripping activity assets are carried at cost less depreciation, amortisation and impairment losses if any. Leading on, the increase was due to the depreciation of deferred stripping activity assets, which are depreciated based on the Units of Production method.

For calculation of mining costs, new accounting standard IFRIC 20 was adopted effective from 1 January 2013, for accounting of the stripping activity in the production phase of a surface mine. IFRIC 20 requires that the costs of stripping activity which provides a benefit in the form of improved access to ore is recognised as a non-current 'stripping activity asset' where the following criteria are met:

- it is probable that the future economic benefit (improved access to the ore body) associated with the stripping activity will flow to the entity;

- the entity can identify the component of the ore body for which access has been improved; and

- the costs relating to the stripping activity associated with that component can be measured reliably.

Therefore, with the adoption of IFRIC 20, the Group identified components of the mine in accordance with the mine plan, and started accounting mining unit costs based on the strip ratio applicable to each component of the mine.

Average accounting strip ratio for components mined during the 2013 was 2.5 bcm per tonne, whereas prior to the adoption of IFRIC 20, average accounting strip ratio was 3.2 bcm per tonne.

The mining cost is not only recorded in the income statement, but also the costs of pre-stripped overburden, which is associated with the coal to be mined, processed, transported and sold in the future, in excess of the average strip ratio, which is capitalised in the balance sheet as mining structure.

Processing costs primarily included costs associated with the operations of the CHPP, including power and water costs. In 2013, the Group's processing costs were USD38.8 million (2012: USD51.0 million), of which USD16.4 million was related to the depreciation and amortisation. Also, processing costs included power generation and distribution costs of USD7.4 million incurred in the UHG Power Plant and the water extraction and distribution costs of USD1.7 million incurred in the UHG Water Supply Facility related to the washed coal sold in 2013.

Unit processing cost calculated per ROM coal in-feed tonne decreased by 38.4% or USD2.8 from USD7.3 per ROM tonne in 2012 to USD4.5 per ROM tonne in 2013. The decrease was mainly achieved due to economies of scale. Furthermore, moving to own operation management of CHPP and eliminating the operation management previously performed by contractor (Table 9) aided cost reduction.

Table 9. Total processing cost and unit processing cost per ROM tonne:

	Year ended December 31			
	2013	2012	**2013**	2012
			USD/ROM	USD/ROM
	USD'000	USD'000	**tonne**	tonne
Total processing costs	**38,824**	51,031	**4.5**	7.3
Consumables	**3,245**	2,993	**0.4**	0.4
Maintenance and spares	**3,686**	4,810	**0.4**	0.7
Power	**7,403**	8,368	**0.9**	1.2
Water	**1,762**	2,903	**0.2**	0.4
Staff	**3,923**	3,446	**0.4**	0.5
Contractor fee	**–**	8,251	**–**	1.2
Ancillary and support	**2,413**	3,477	**0.3**	0.5
Depreciation and amortisation	**16,392**	16,783	**1.9**	2.4

Handling cost related to feeding ROM coal from stockpiles to the CHPP and also the removal of course reject (primarily rock and sediment separated from coal) after coal processing. In 2013, the Group's handling cost was USD12.3 million (2012: USD13.2 million). Unit handling cost decreased by 12.5% or USD0.3 from USD2.4 per tonne in 2012 to USD2.1 per tonne in 2013. Increasing the proportion of in-feed ROM coal being directly dumped to the CHPP feed reduced coal re-handling activity required, which lowered the total handling cost.

Transportation costs are derived primarily from costs related to the transportation of coal products from UHG to TKH, transportation of ROM coal from the BN mine to the CHPP located at the UHG mine and the transportation of coal products to the selling point destinations as stipulated under sales contracts, including fees paid to third party transportation contractors.

The Group successfully decreased its overall transportation costs in 2013, by 26.1% to USD96.7 million from USD130.9 million in 2012 and per tonne basis decreased by 27.5% or USD6.4 per tonne to USD16.9 per tonne in 2013 from USD23.3 per tonne in 2012. Transport cost in the UHG-GM section decreased by 22.8% or USD5.0 per tonne from USD21.9 per tonne in 2012, to USD16.9 per tonne in 2013.

The management focused on maximising the utilisation of the Group's own transportation fleet and improving efficiency in its main long-haul transport (UHG-TKH) section. As a result, the transportation cost using its own fleet in the long-haul (UHG-TKH) section has been reduced from USD9.4 per tonne in 2012 to USD8.1 per tonne in 2013, which represents USD1.3 or 13.8% decrease per tonne year-on-year basis. In addition, round trips per truck increased from 12 per month in 2012 to 20 per month in 2013 further increasing own fleet utilisation. The Group's own transport fleet carried the majority (99.7%) of transportation on the UHG-TKH long haul section, while the remaining small volume (0.3%) was transported by third party contractors. Therefore, the combined cost of transportation on long-haul has been reduced by 31.9% from USD11.9 per tonne in 2012 to USD8.1 per tonne in 2013.

For the short-haul (TKH-GM) section, where the Group utilised a contracted fleet for the majority of its transportation, the Group's transportation costs were USD8.8 per tonne in 2013, compared to USD10.0 per tonne recorded in 2012, representing a decrease of 12.0% or USD1.2 per tonne.

Logistics costs are mainly related to costs for paved road operations, maintenance and amortisation costs and also costs associated with operating product stockpiles at UHG and TKH. In 2013, the Group's logistics costs were USD18.0 million (2012: USD23.3 million), of which USD4.6 million was related to the amortisation of the UHG-GS paved road. The paved road operations, maintenance and amortisation costs are partially offset by toll fee revenue generated from third party cargo on commercial terms in accordance with conditions stipulated in the BOT agreement entered between GoM and the Group in May 2010.

The site administration cost is primarily related to the site support facilities such as the airstrip operations, and also overall supervision and joint management of the Group's mining, processing, transportation and logistics operations at UHG and BN mines, both located in South Gobi province. In 2013, the Group's site administration costs were USD12.4 million (2012: USD10.9 million). The Group is implementing policies to shift the employees' work place and to promote relocation to the site base for the purpose of increasing operational efficiency at site. This in turn resulted in an increase of the site administration cost, whilst on the other hand, it reduced general administrative expenses.

For 2013, the Group recorded lower transportation and stockpile net loss of USD7.9 million compared to net loss of USD19.5 million recorded in 2012. The decrease was attributable to overall lower ROM coal inventory stock volume, and due to improved transportation and stockpile management. The inventory losses are assessed based on periodic survey measurements of the Group's ROM coal inventories of ROM coal stockpiles at the UHG and BN mines, and also coal products inventories of product stockpiles at UHG and TKH. (Table 10):

Table 10. Transportation and stockpile losses by amounts and volumes:

	Year ended December 31			
	2013	2012	**2013**	2012
	USD'000	USD'000	**tonne'000**	tonne'000
Transportation and stockpile losses	**7,850**	19,478	**241.3**	754.5
Transportation loss	**1,199**	3,782	**11.8**	80.7
Washed coal	**1,187**	3,718	**11.6**	78.2
Raw coal	**12**	64	**0.2**	2.5
Stockpile loss	**6,651**	15,696	**229.5**	673.8
Washed coal	**4,125**	6,683	**87.0**	110.5
Raw coal	**2,526**	9,013	**142.5**	563.3

Governmental royalties and fees are related to royalties, air pollution fees and custom fees paid according to the applicable laws and regulations in Mongolia. The progressive royalty rate, in the range of 5-8% for processed coal products and 5-10% for raw coal, was based on the monthly reference price determined by the Ministry of Mineral Resources and Energy of Mongolia at the time. However, during the period between 1 January 2013 and 1 April 2013, the contract prices were used for calculating royalty rates based on the GoM issued Resolution No. 74 dated 6 October 2012, which was temporarily suspending the use of the monthly reference price system. The Group's effective royalty rate for 2013 was around 6.1% (2012: 7.3%).

Gross Profit and Gross Profit Margin

In 2013 the Group recorded both higher gross profit and gross profit margin whilst experiencing lower sales revenue compared to 2012, highlighting the Group's successful cost management measures taken during 2013.

The Group's gross profit for the year ended 31 December 2013 was approximately USD75.9 million, representing an increase of USD21.8 million, or 40.3%, from gross profit of USD54.1 million recorded for the year ended 31 December 2012. In 2013, gross profit margin was 17.3%, compared with 11.4% in 2012.

General and Administrative Expenses

The Group's general and administrative expenses relate primarily to staff costs, share option expenses, allowance for doubtful debts, consultancy and professional fees, depreciation and amortisation of office equipment and other expenses. The following table presents, for the periods indicated, individual administrative expenses in terms of amount and as a percentage of the Group's total administrative expenses (Table 11):

Table 11. General and administrative expenses:

	Year ended December 31			
	2013		2012	
	USD'000	**%**	USD'000	%
Staff costs	**7,381**	**14.1%**	10,451	21.7%
Consultancy and professional fees	**4,323**	**8.2%**	5,585	11.6%
Depreciation and amortisation	**1,824**	**3.5%**	4,327	9.0%
Allowance for doubtful debts & receivable write-off	**17,220**	**32.9%**	5,928	12.3%
Share option	**4,720**	**9.0%**	6,620	13.7%
Others	**16,942**	**32.3%**	15,272	31.7%
Total	**52,410**	**100.0%**	48,183	100.0%

Note: Others include costs incurred in relation to the social responsibility and community support expenses, insurance cost, travelling expenses, rental fees and other expenses.

In 2013, the Group's administrative expenses increased by approximately USD4.2 million or 8.8% from USD48.2 million in 2012 to approximately USD52.4 million in 2013. The Group's administrative expenses in 2013 by category have all decreased compared to 2012, except for the allowance for doubtful debts and receivable write-off, which is a provision for potential credit related circumstances due to challenging market conditions in China and credit risk of each individual trade credit. Credit Committee assessed the recoverability of USD18.1 million of receivables as either aged over 1 year or doubtful and altogether was written off.

Net Finance Cost/(Income)

Net finance cost for the year ended 31 December 2013 was approximately USD85.5 million (2012: net finance cost of USD11.4 million). Net finance cost was primarily due to (i) USD11.7 million negative change in net fair value related to the Senior Notes (the "**Senior Notes**"); (ii) less interest expenses capitalised during 2013 compared to 2012, since major part of the construction and development activities of the Group are completed; (iii) USD18.5 million foreign exchange loss due to depreciating MNT against the USD; and (iv) less interest income earned.

Income Tax Expenses

The Group's income tax expense for the year ended 31 December 2013 decreased from USD3.2 million in 2012 to approximately USD2.6 million in 2013 due to lowered profitability of the Company during the period.

Loss/Profit for the Year

As a result of the costs listed above, losses attributable to equity shareholders of the Company for the year ended 31 December 2013 amounted to approximately USD58.1 million. Major contributing factors of the Group's net loss position are (i) a decrease of ASP of coking coal products and (ii) an increase in the Group's finance costs related to the Senior Notes and other facilities, resulting in a total net finance cost of approximately USD85.5 million.

Liquidity and Capital Resources

In light of market volatility, the Group took strict approach on cash management. The Company took several measurements to enhance the Group's liquidity position, notably subsequent to the balance sheet date the Group refinanced and extended the maturity of the outstanding BNP Paribas facilities of USD130 million and increasing the size by additional USD20 million to USD150 million. The Group also refinanced and extended maturity of short-term loans of USD40 million into a revolving credit facility. Operating working capital was substantially improved from negative USD61.7 million in 2012 to positive USD160.7 million in 2013 by successfully negotiating payments terms such as extending payables time frame with major suppliers. Furthermore, the Group completed the sale of the UHG-GS Road receiving payment amount of USD90.3 million (converted at exchange rate on payment receipt date).

For the year ended 31 December 2013, the Company's cash needs had been primarily related to repayment of USD85 million Convertible Bond to QGX Holdings Ltd and costs associated with construction of CHPP Module 3.

The Company's cash resources were funded mainly by proceeds of USD600 million Senior Notes issued in 2012.

The following table sets out below certain information regarding the Group's combined cash flows for the periods indicated:

Table 12. Combined cash flows:

	2013 **USD'000**	2012 USD'000
Net cash generated from/(used in) operating activities	**160,711**	(61,723)
Net cash generated from/(used in) investing activities	**20,959**	(320,422)
Net cash (used in)/generated from financing activities	**(199,296)**	385,710
Net (decrease)/increase in cash and cash equivalents	**(17,626)**	3,565
Cash and cash equivalents at beginning of the year	**44,322**	41,006
Effect of foreign exchange rate changes	**(161)**	(249)
Time deposits with original maturity over three months	**50,000**	240,000
Cash and cash equivalents at end of the year	**76,535**	284,322

Note: USD20,959,000 generated from investing activities comprises of USD54,651,000 incurred for acquisition of property plant and equipment and construction in progress, USD128,814,000 incurred for payments for deferred stripping activity, USD190,000,000 withdrawn from time deposits and USD14,424,000 generated from interest income.

The gearing ratio (calculated as total bank and other borrowings divided by total assets) of the Company as at 31 December 2013 was 46.7% (2012: 46.3%). All borrowings are in USD. Cash and cash equivalents are held in MNT, USD, RMB, EUR and Hong Kong Dollars ("**HKD**"). The Company's policy is to monitor regularly current and expected liquidity requirements and compliance with debt covenants to ensure that the Company maintains sufficient reserves of cash to meet its liquidity requirements in the short and long term.

Indebtedness

As of 31 December 2013, the Company had USD886.2 million in outstanding short-term and long-term borrowings, including indebtedness incurred under (i) USD600 million Senior Notes, (ii) BNP Paribas Facility of USD200 million, (iii) USD180 million facility agreements with European Bank for Reconstruction and Development, FMO – Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. and DEG – Deutsche Investitions-und Entwicklungsgesellschaft mbH (the "**EBRD, FMO and DEG Loan Agreements**"), and (iv) USD40 million short-term loan from Trade and Development Bank of Mongolia.

The Senior Notes, rated at Caa2 by Moody's Investors Service, Inc. and CCC+ by Standard and Poor's Ratings Services, bear a fixed interest rate of 8.875% per annum payable semiannually. The Senior Notes will mature in March 2017, unless earlier redeemed. As of 31 December 2013, the outstanding principal amount was USD600 million. Upon the sale, transfer, conveyance or other disposition (other than by way of merger or consolidation) in one or a series of related transactions of all or substantially all of the properties or assets of the Company to any person other than one or more of the beneficial owners of less than 30% of the total voting power of the Company, the Company must make an offer to repurchase all outstanding Senior Notes at a purchase price equal to 101% of their principal amount plus accrued and unpaid interest, if any, to (but not including) the date of repurchase.

The BNP Paribas Facility was initially contracted with Standard Bank Plc with facility amount of USD300 million. Such facility was drawn down from Standard Bank Plc in the amount of USD200 million in March 2012 and the remaining available facility of USD100 million was cancelled by the Company. On 18 December 2013, the Standard Bank Plc transferred all of its rights, title and interests in (and obligations under) the Standard Bank Facility to BNP Paribas, Singapore Branch. The loan bears an interest rate of LIBOR plus 5.25% per annum, and is repayable in 10 quarterly installments starting from December 2012 and ending in March 2015. As of 31 December 2013, the outstanding principal amount of such BNP Paribas Facility was USD130 million. Under the BNP Paribas Facility, the Company shall not issue any shares if such issue results in (i) the creation of a new share class of the issued share capital of the Company and (ii) a change of control by controlling shareholder of the Company, ceasing a beneficially hold (directly or indirectly) at least 30% of the total issued share capital of the Company. Subsequent to the year end, on 5 March 2014, the Company as a borrower entered into a facilities agreement (the "**Facilities Agreement**") with two international banks as arrangers and original lenders for a coal pre-export loan facility of USD150 million with a greenshoe option of up to USD50 million to the Company and fully refinanced the existing BNP Paribas Facility.

The EBRD, FMO and DEG Loan Agreements bear interest on a semiannual basis at the rate of six-month LIBOR plus 3.25%-4.25% per annum. The USD120 million principal amount of the loan is repayable in 11 semiannual installments ending on 15 May 2016, and the USD60 million principal amount of the loan is repayable in two equal installments on 15 May 2015 and 15 May 2016, respectively.

As at 31 December 2013, the outstanding principal amount was USD125.5 million. Under the EBRD, FMO and DEG Loan Agreements, the controlling shareholder of the Company may not cease at any time to own directly or indirectly more shares of the Company than any other shareholder, or at least 30% plus one share of the issued and outstanding shares of the Company, or the Company may not cease to be directly majority owned by entities domiciled in Mongolia.

The Trade and Development Bank of Mongolia loan is a short term loan maturing in March 2014. The loan bears interest of 9.0% per annum. As of 31 December 2013, the outstanding principal amount was USD40 million. Subsequent to year end, the Company refinanced the loan into a revolving credit facility and extended maturity by one year.

Credit Risk

The Group closely monitors its credit exposure. Credit risk is primarily attributable to trade and other receivables.

For the year ended 31 December 2013, the Group had approximately USD23.1 million in trade receivables, including non-current portion of trade receivables, USD196.6 million in other receivables and USD5.0 million for allowance of doubtful debts. For the year ended 31 December 2012, the Group had USD35.8 million in trade receivables and USD178.0 million in other receivables, as well as USD5.9 million for allowance of doubtful debts.

The Company holds monthly Credit Committee meetings to review, assess and evaluate the Company's overall credit quality and the recoverable amount of each individual trade credit. As of 31 December 2013, in accordance with the Credit Policy and based on the Credit Committee's assessment, certain debts in amount of approximately USD8.0 million aged over one year and USD10.1 million debts, recoverability of which was assessed as doubtful, were written off against the existing allowance for doubtful debts and any remainder was charged directly to profit or loss. The management continues to monitor, on an ongoing basis, the exposure, including but not limited to the current ability to pay, and takes into account information specific to the customer and pertaining to the economic environment in which the customer operates, on an ongoing basis.

With regard to other receivables of USD196.6 million, this amount is mainly related to USD68.5 million VAT and other tax receivables, USD50.6 million from the GoM for railway project related reimbursement and other deposits and prepayments. For the VAT receivables, based on the Tax authority audit and approval of the VAT tax refund, the Group mainly offsets the VAT refund with its other tax payments. As at 31 December 2013, the Group has USD23.0 million of approved VAT receivables, ready to be offset against other taxes payables or refunded by cash. The remaining amounts are deposits, advances, prepayments and other receivables in the ordinary course of business. Management believes that there is no issue in the collectability of such receivables.

Substantially all of the Group's cash at bank are deposited in the reputable banks, which management assessed the credit risk to be insignificant.

Foreign Exchange Risk

During the two years ended 31 December 2012 and 2013, 100% and 99.9% of the revenue and 35.5% and 45.6% of the purchases in each respective year were denominated in currencies other than MNT, the functional currency of the Group's Mongolian entities.

For the year ended 31 December 2012, 75.6% of the revenues were denominated in USD, with the remaining revenue denominated in RMB. For the year ended 31 December 2013, 43.3% and 56.6% of the revenues were denominated in USD and RMB respectively, with the remaining revenue denominated in MNT.

For the year ended 31 December 2012, 91.3%, 31.7% and 14.0% of the finance cost, operating expenditures and capital expenditures, respectively, were denominated in USD, with the remainder denominated in MNT. For the year ended 31 December 2013, 3.0%, 14.2% and 81.7% of the finance cost, operating expenditures and capital expenditures, respectively, were denominated in USD; while 8.7% and 0.2% of the operating expenditures and capital expenditures, respectively, were denominated in RMB; 0.1% and 1.3% of the operating expenditures and capital expenditures, respectively were denominated in other currencies than the USD, RMB and MNT; and the remainder was denominated in MNT.

Although the majority of the Group's assets and operating expenses are denominated in MNT, a large portion of expenses, including fuel and capital expenditures, are import costs and are thus linked to USD and RMB prices. Also, the majority of the Group's finance costs are denominated in USD. Therefore, the Group believes that there is a natural hedge that partially offsets foreign exchange risk.

Cash and cash equivalents denominated in the currency other than the functional currency of the entity to which they relate as at 31 December 2012 and 2013 amounted to USD282.4 million and USD72.7 million, respectively. Total borrowings denominated in the currency other than the functional currency of the entity to which they relate as at 31 December 2012 and 2013 amounted to USD147.3 million and USD165.5 million, respectively.

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

Pledge of Assets of the Group

As at 31 December 2013, the Company pledged ER's current accounts held with Trade and Development Bank of Mongolia, Khan Bank of Mongolia, Golomt Bank of Mongolia, its Debt Reserve Account for loan repayment, cooperation contract with Inner Mongolia Qinghua Group of China, coal mining agreement with Leighton LLC; engineering, procurement and construction management ("**EPCM**") contract for the CHPP constructed at the UHG site with Sedgman LLC; CHPP modules 1 and 2; UHG Power Plant; and water facilities for the EBRD, FMO and DEG Loan Agreements.

The Company pledged its Collection and Cash Collateral accounts with BNP Paribas, coal sales contracts with Winsway Resources Holdings Private Limited, Shenhua Bayannaoer Energy Co., Ltd, Bayannur Conglin Mining Co., Ltd, Wulate Zhongqi Jingshun Da Color Steel Engineering Co., Ltd and Inner Mongolia Qinghua Group of China, and coal stockpile of ER for the BNP Paribas Facility.

Share pledges of Mongolian Coal Corporation Limited and Mongolian Coal Corporation S.a.r.l. are shared among the BNP Paribas Facility and the Senior Notes.

ER pledged its 4,207,500 common shares, being 25.5% common shares held by it in International Medical Centre LLC pursuant to Share Pledge between ER and EBRD dated 24 June 2013 to secure loan repayment obligation of International Medical Centre LLC in proportion to its equity interest in International Medical Centre LLC.

The total amount of indebtedness covered with above pledges is USD846.2 million as at 31 December 2013.

Contingent Liabilities

a) As at 31 December 2013, the Company has contingent liability in respect of the consideration adjustments for the Acquisition of BN mine pursuant to the share purchase agreement (the "**Share Purchase Agreement**") entered into by the Company and its subsidiary Mongolian Coal Corporation Limited with Quincunx (BVI) Ltd and Kerry Mining (Mongolia) Limited ("**KMM**") on 31 May 2011 in relation to the acquisition of the entire share capital of QGX Coal Ltd (the "**Acquisition**"), which may arise from the royalty provision. Under the royalty provision, an additional LOM payment of USD6 per tonne may be payable in the event that the actual amount of coal extracted from the BN mine exceeds a specified semiannual production target fixed on the date of the determination of the total reserves in each semiannual period after 1 June 2011 commencing on 1 January and ending on 30 June and commencing on 1 July and ending on 31 December.

Under the royalty provisions for excessive coal production at the BN mine pursuant to the Share Purchase Agreement and the Settlement Agreement, the specified semiannual ROM coal production has to exceed approximately 5.0 Mt. Therefore, the probability of royalty provision is considered to be very low.

b) On 14 February 2013, Enrestechnology LLC, wholly-owned subsidiary of the Company, brought a claim to the Capital Administrative Court of Mongolia against two decisions No.101/12 and 102/12 both dated 26 December 2012, of the customs officers of General Customs Office of Mongolia.

These disputing decisions were made as a result of customs post-clearance audit, of which scope of inspection was 'importing activities due course of CHPP module I and II Construction Project' of the Company. Specifically, these decisions were made in relation to costs incurred in accordance with four interconnected contracts within a scope of EPCM services contracts signed with EPCM contractor.

In particular, in terms of cost type, these disputing decisions were made upon customs officers' assumption that "procurement management service payments" stated in EPCM contracts where "brokerage service fees" as well as "design and engineering management service payments" were addable costs to the declared values of the particular imported goods in the CHPP construction period, pursuant to Article 10.3 of the Law on Custom Tariff and Tax of Mongolia.

The total amount of these decisions was MNT7,984,088,870 (equivalent to USD4,826,848), which includes customs and VAT with relevant penalty. The amount claimed against Enrestechnology LLC under the customs officer's first disputing decision is MNT4,630,328,449 (equivalent to USD2,799,304) and the amount claimed under the second disputing decision is MNT3,353,760,421 (equivalent to USD2,027,544).

As of the date of this disclosure, since the Company and its subsidiary Enrestechnology LLC disagree with the customs officer's decisions and this matter did not reach the final decision, no payment was made by the Company or Enrestechnology LLC in accordance with these two disputing decisions.

On 26 February 2013, the Capital Administrative Court instituted the administrative legal proceeding on this case, which started litigation process of the first instance court hearing. Defendants submitted their response explanations to the Capital Administrative Court on 14 March 2013.

On 21 May 2013, the Judge for Capital Administrative Court ruled to appoint a linguistic expert and on 5 September 2013 it further ruled to extend the number of experts. The Group specialists appointed by the court submitted their compiled opinion to the Capital Administrative Court on 1 October 2013 in their capacity of experts.

The court hearing of the first instance was held on 17 January 2014 after number of postponements of the court session. During the court hearing, the defendants made request to re-appoint an expert raising their disagreement with an expert opinion issued. The judge resolved to accept the request and issued an order on 17 January 2014 to suspend litigation procedure until the re-appointed experts' opinion is rendered.

The Company disagreed with that order and submitted its complaint on 27 January 2014 to the Capital Administrative Court of Appeal. The hearing of the Court of Appeal was held on 27 February 2014 and ruled in favor of the Company dismissing the order of the first instance court to re-appoint a linguistic expert on this case. Therefore, first instance court procedure shall resume.

The Company is expecting that Court of First Instance will hear the case within the third quarter of 2014. It is difficult to estimate probability of the court decision at this stage of the litigation. If Enrestechnology LLC was found to be liable to the claim, the under-paid customs duties and VAT would result in an increase in the cost of the Group's property, plant and equipment and the penalty would be charged to the Group's profit or loss.

c) The Group received a claim of MNT57,675,632,400 (approximately USD34,868,286) on 28 March 2013, filed in a district court of Ulaanbaatar by the Lawyer's Association for Environment ("**LAE**") regarding allegations against the Group in relation to possible damages to the environment due to its coal hauling operation.

On 8 August 2013, the first instance district court ruled that Group has to pay MNT52,235,485,740 (approximately USD31,579,400) in relation with the claim issued by the LAE on 28 March 2013 regarding allegations in relation to possible damages to the environment due to coal hauling operation.

The Group disagreed with the court decision and submitted its appeal. An appeal court hearing was held on 11 December 2013 and decided to dismiss previous decisions made by the first instance court and therefore to transfer the case for rehearing by the first instance court.

The rehearing of first instance court is anticipated to be held within the second quarter of 2014. The Group is taking necessary preparation for the rehearing of first instance court, and it is difficult to predict the final outcome. If the Group were to be found liable to the claim, the claimed amount would be charged to the Group's profit or loss.

Financial Instruments

The Company has a share option scheme, adopted on 17 September 2010 ("**Share Option Scheme**"), in which the Board is authorised, at its discretion, to grant to eligible participants options to subscribe for shares ("**Share Options**") subject to the terms and conditions stipulated therein as incentives or rewards for their contributions to the Company.

Under the Share Option Scheme, the Company granted two batches of Share Options to its directors and employees. On 12 October 2011, the Company granted 3,000,000 and 32,200,000 Share Options to directors and employees respectively, at the exercise price of HKD6.66. On 28 November 2012, the Company granted another 5,000,000 and 17,750,000 Share Options to directors and employees respectively, at the exercise price of HKD3.92.

The fair value of services received in return for Share Options granted is measured with reference to the fair value of Share Options granted. For the year ended 31 December 2013, USD4.7 million was recognised in administrative expenses and capital reserves in relation to the equity-settled share-based transactions.

The Senior Notes have been accounted for as a hybrid financial instrument containing both a derivative component and a liability component. The derivative component was initially recognised at its fair value of USD4.9 million, and the attributable transactions costs of USD0.11 million were charged to the profit or loss for the year ended 31 December 2012.

The fair value of the derivative component of the Senior Notes as at 31 December 2013 was USD0.7 million, and was presented as a derivative financial instrument. The liability component was initially recognised at an amortised cost of USD591.7 million after taking into account USD13.2 million as attributable costs.

Capital Commitments and Capital Expenditures

As at 31 December 2013, the capital commitments outstanding on the respective dates on the balance sheet were as follows:

Table 13. Capital commitments:

	2013 USD'000	2012 USD'000
Contracted for	**5,554**	35,409
Authorised but not contracted for	**681**	69,427
Total	**6,235**	104,836

Table 14. The Group's historical capital expenditures for the periods indicated:

	2013 USD'000	2012 USD'000
CHPP	**15,293**	87,119
Road	**14**	21,644
Railway	**–**	24,899
Water supply facility	**12,552**	27,730
Power plant	**1,821**	554
Property (camp, airport and workshop)	**6,769**	29,974
Trucks and equipment	**2,544**	14,589
Others	**2,897**	5,992
Total	**41,890**	212,501

Operating Lease Commitments

As at 31 December 2013, the Company had contracted obligations consisting of operating leases which totaled approximately USD2.1 million with USD1.6 million due within one year and USD0.5 million due between two and five years. Lease terms range from 1 to 5 years, with fixed rentals.

Significant Investment Held

As at 31 December 2013, the Company did not hold any significant investments. The Company has no future plans for material investment or capital assets in the coming year.

Material Acquisitions and Disposal of Subsidiaries and Associated Companies

For the year ended 31 December 2013, the Company did not have any material acquisitions and disposals of subsidiaries and associated companies.

Other and Subsequent Events

a) The GoM at its cabinet meeting held on 16 August 2013 resolved to implement certain measures to support coal exports from Mongolia. One of such measures was to purchase by the GoM the UHG-GS Road from Gobi Road LLC, an indirect wholly-owned subsidiary of the Company, with an aim to decrease transportation costs, an important factor for coal export support.

   On 8 December 2013, Energy Resources LLC, the operating arm of the Group, and Gobi Road LLC, entered into the Agreement with Erdenes MGL assigned by the GoM to take control of the UHG-GS Road assets along with all rights and responsibilities in relation to the operation and maintenance of the road pursuant to Government Resolution No. 299 on "Certain actions to be taken to support coal export" dated 16 August 2013. On 13 February 2014, Energy Resources LLC, pursuant to the Agreement received payment of MNT157,847,184,615 (equivalent to approximately USD90,323,295 at exchange rate on the payment receipt date) and the rights and duties of the parties under the Agreement became enforceable. The consideration was determined by the working group appointed by the Ministry of Economic Development of Mongolia, after taking into account the inspection of all costs and expenses that have been incurred by the Company in relation to the construction and financing of the UHG-GS Road.

   Upon completion of the transfer of the UHG-GS Road, the Company will continue to have unrestricted access to the UHG-GS Road by paying tariff in accordance with the relevant Mongolian laws and agreement concluded between Gobi Road LLC and Erdenes MGL for road utilisation and road maintenance services.

b) On 5 March 2014, the Company as a borrower entered into the Facilities Agreement with two international banks as arrangers and original lenders. The Facilities Agreement provides a coal pre-export loan facility of USD150,000,000 with a greenshoe option of up to USD50,000,000 to the Company. According to the Facilities Agreement, the purpose of the facilities is to refinance the existing term loan of USD200,000,000 with the outstanding balance of USD130,000,000, and the remaining balance of the facilities allows the Company to extend maturity of funding facilities, and to finance general working capital and capital expenditure requirements of the Company. The facilities shall be repaid by the Company in installments with the last repayment date falling on the earlier of thirty-third month from the first drawdown date of the Facilities Agreement and 1 December 2016.

Employees

As at 31 December 2013, the number of the Group's employees decreased to 2,272 from 2,568 employees as at 31 December 2012.

It is not mandatory that bonus follows every assessed performance but shall depend on the individual's and Company's target. It should also have the same effect as an award or motivation tool. As the actual bonus system has a tight link to the Company's performance and in view of the Company's unprofitability in 2013, 50% of the bonus for the year 2013 has not been paid. However, the remaining 50% of the bonus, which is linked to individual performance, had been paid based on performance evaluation.

The Group's remuneration policy is designed to attract, retain and motivate highly skilled individuals to ensure the capability of its workforce to implement its business strategy. The Group's employees are remunerated with reference to their individual performance, experience, qualifications and the prevailing salary trends in the local market, which is subject to periodic review. With reference to the Group's financial and operational performance, employees may also be rewarded other benefits such as discretionary bonuses and Share Options pursuant to the Company's Share Option Scheme.

The Group believes that the foundation of its progress is to build employee capabilities. Hence, having a sound training and development mechanism is an important part of developing its employee capabilities. Employees have the opportunity to further develop their skills and competencies through ongoing training and development based on business needs of the Company and job specifications.

Training and development programs shall be designed for the interest and welfare of the Company and employees. An Employee after the completion of his/her training shall be expected to put the knowledge into practice, and share the newly gained experience with coworkers of particular area. Direct management shall be responsible for support and supervision of the process.

In 2013, the Company focused on internally sourced trainings rather than outsourcing. As at 31 December 2013, total of 643 employees attended 71 different trainings, out of which 340 employees attended corporate trainings and 303 employees attended vocational training.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

The Company has entered into the following connected transactions in the ordinary course of its business with certain of its connected persons for the year ended 31 December 2013. Set out below is a summary of the connected transactions entered by the Company in compliance with the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing Rules**"), as inclusive of related party transactions fall under the definition of "connected transactions" and "continuing connected transactions".

Non-exempt connected transactions

The following non-exempt connected transactions were recorded for the year ended 31 December 2013:

(1) Apartment Sale and Purchase Agreement

Principal Terms

On 17 August 2012, Energy Resources LLC, an indirect wholly-owned subsidiary of the Company, entered into an agreement with MCS Property LLC, a subsidiary of MCS Holding LLC, to purchase four sets of apartments with total area of 12,703.36 m^2 constructed by MCS Property LLC in Tsogttsetsii soum of Umnugobi province, Mongolia.

Connected Person

MCS Property LLC is a subsidiary of MCS Holding LLC which is in turn wholly-owned and controlled by MCS (Mongolia) Limited which directly owns a 100% shareholding interest in MCS Mining Group Limited, a controlling shareholder of the Company. As such, MCS Property LLC is a connected person of the Company.

Consideration

The total consideration payable by Energy Resources LLC is MNT22,803,479,766 (equivalent to approximately USD16,737,113) and payments for set A and C apartments will be made in two installments: advance payment of MNT5,595,708,483 (equivalent to approximately USD4,107,093) within 10 business days and remaining 50% payment of MNT5,595,708,483 (equivalent to approximately USD4,107,093) within 20 business days of signing of the agreement.

Table 15. Payment schedule for set B and D apartments

	Date	Payments (MNT)	Percentages
Deposit	after signing the Agreement	3,483,618,840	30%
Installment 1	by 15 September 2012	3,483,618,840	30%
Installment 2	by 15 October 2012	3,483,618,840	30%
Installment 3	after handling over the keys	1,161,206,280	10%
Total		**11,612,062,800**	**100%**

The consideration was determined at the market rate of MNT1,755,000 (equivalent to approximately USD1,288) per m^2 for set A, set B, set D apartments and MNT1,930,667 (equivalent to approximately USD1,417) per m^2 for set C apartment.

Transaction (excluding VAT) of MNT4,222,568,291 (equivalent to approximately USD2,770,678) was incurred at Energy Resources LLC under this agreement for the year ended 31 December 2013.

(2) EPCM Service Agreement for New School, Kindergarten and Dormitory Complex

Principal Terms

On 3 April 2012, Energy Resources LLC, an indirect wholly-owned subsidiary of the Company, entered into an agreement with MCS Property LLC, a subsidiary of MCS Holding LLC, whereby MCS Property LLC agreed to provide Energy Resources LLC EPCM services for new school, kindergarten and dormitory complex in Tsogttsetsii soum of Umnugobi province, Mongolia for a period commencing from 3 April 2012 to 31 December 2012.

Connected Person

MCS Property LLC is a subsidiary of MCS Holding LLC which is in turn wholly-owned and controlled by MCS (Mongolia) Limited which directly owns a 100% shareholding interest in MCS Mining Group Limited, a controlling shareholder of the Company. As such, MCS Property LLC is a connected person of the Company.

Consideration

The total consideration payable by Energy Resources LLC under this agreement is MNT3,166,735,887 (equivalent to approximately USD2,405,676) and was determined by tender proposal submitted by MCS Property LLC for EPCM services for new school, kindergarten and dormitory complex.

Energy Resources LLC will make advance payment of 10% of the total contract amount within 30 calendar days from signing the agreement. Interim payments will be made on monthly basis within first 10 working days of next month based on actual work completion percentage indicated in the monthly progress report issued by MCS Property LLC. 10% retention will be withheld from each interim payment and the retention will be returned to the contractor upon completion of the EPCM service and state commissioning of the construction.

The agreement expired on 31 December 2012. 10% of retention withheld by Energy Resources LLC until the completion of state commissioning of the construction was paid to MCS Property LLC in 2013.

Transaction (excluding VAT) of MNT287,885,080 (equivalent to approximately USD188,898) was incurred at Energy Resources LLC under this agreement for the year ended 31 December 2013.

(3) Naimdai Electrical Power Supply System Agreement

Principal Terms

On 3 April 2012, Ukhaa Khudag Water Supply LLC, an indirect wholly-owned subsidiary of the Company, entered into an agreement with MCS International LLC, a subsidiary of MCS Holding LLC, whereby MCS International LLC agreed to provide services including (i) 38.5 km of 35 kilo volts ("**kV**") double circuit overhead power line; (ii) 40.2 km of 10kV overhead power line; (iii) 1 set of 10kV substation with 2x630 kilo volt-amperes ("**kVA**") step up transformer; (iv) 4 sets of 10kV substation with 1x630 kVA transformer; (v) 1 set of 100kVA 10/0.4kV substation; (vi) 18 sets of 63 kVA 10/0.4kV complete substation; and (vii) 1,000 metres of 10kV power cable, to Ukhaa Khudag Water Supply LLC for a period commencing from 3 April 2012 to 31 March 2013.

Connected Person

MCS International LLC is a subsidiary of MCS Holding LLC which is in turn wholly-owned and controlled by MCS (Mongolia) Limited which directly owns a 100% shareholding interest in MCS Mining Group Limited, a controlling shareholder of the Company. As such, MCS International LLC is a connected person of the Company.

Consideration

The total consideration payable by Ukhaa Khudag Water Supply LLC under this agreement is MNT8,381,584,566 (equivalent to approximately USD6,367,243) and was determined by tender proposal submitted by MCS International LLC for Naimdai electrical power supply system services.

Ukhaa Khudag Water Supply LLC will make payment in the following installments: 20% of the total consideration upon acceptance of the agreement; 40% of the total consideration on main equipment delivery at the site; 35% of the total consideration on mechanical completion and 5% of the total consideration on completion of whole of the works and issue of taking over certificate and completion of outstanding work.

Due to commencement of belt press facility, the Company is using water more efficiently and, as such, water supply for the Company is fulfilled by its current water source. Therefore, Naimdai electrical power supply system project is decelerated due to such sufficient water supply which resulted in suspension of the works under this agreement. As such, no payment was made by Ukhaa Khudag Water Supply LLC under this agreement during the year ended 31 December 2013.

(4) Engineering Procurement Agreement for High Voltage Substation

Principal terms

On 3 April 2012, United Power LLC, an indirect wholly-owned subsidiary of the Company, entered into an agreement with MCS International LLC, a subsidiary of MCS Holding LLC, whereby MCS International LLC agreed to provide services including high voltage 110/35/10kV main substation expansion services to United Power LLC for a period commencing from 3 April 2012 to 15 September 2012.

Connected Person

MCS International LLC is a subsidiary of MCS Holding LLC which is in turn wholly-owned and controlled by MCS (Mongolia) Limited which directly owns a 100% shareholding interest in MCS Mining Group Limited, a controlling shareholder of the Company. As such, MCS International LLC is a connected person of the Company.

Consideration

The total consideration payable by United Power LLC under this agreement is MNT2,461,013,000 (equivalent to approximately USD1,869,559) and was determined by tender proposal submitted by MCS International LLC for engineering and procurement services for the construction of high voltage substation.

United Power LLC will make payment in the following installments: 20% of the total consideration upon acceptance of the agreement; 40% of the total consideration on main equipment delivery at the site; 35% of the total consideration on mechanical completion and 5% of the total consideration on completion of whole of the works and issue of taking over certificate and completion of outstanding work.

This agreement expired on 15 September 2012. Certain payments under this agreement was made by United Power LLC during the year ended 31 December 2013 due to extended period undertaken for the acceptance of such works.

Transaction (excluding VAT) of MNT671,185,364 (equivalent to approximately USD440,405) was incurred at United Power LLC under this agreement for the year ended 31 December 2013.

Continuing connected transactions

The following continuing connected transactions (the "**CCTs**") were recorded for the year ended 31 December 2013 and are required to be disclosed in the annual report of the Company pursuant to Chapter 14A of the Listing Rules:

(1) Rental of equipment from MCS Electronics LLC

Principal Terms

Prior to the Company's initial public offering, Energy Resources LLC, an indirect wholly-owned subsidiary of the Company, has entered into rental agreement on 22 April 2010 with MCS Electronics LLC, a then subsidiary of MCS Holding LLC, to rent office equipment, such as computers, printers, monitors, fax apparatus, duplicating machines, scanners, and various other office equipment from MCS Electronics LLC for a period from 22 April 2010 to 22 April 2013.

Connected Person

Before May 2013, MCS Electronics LLC was a subsidiary of MCS Holding LLC which is in turn wholly-owned and controlled by MCS (Mongolia) Limited which directly owns a 100% shareholding interest in MCS Mining Group Limited, a controlling shareholder of the Company. As such, MCS Electronics LLC was a connected person of the Company before May 2013. As MCS Holding LLC disposed of its entire interest in MCS Electronics LLC in May 2013, MCS Electronics LLC is no longer a connected person of the Company from May 2013.

Consideration

The rental of office equipment was charged at a monthly rate on a per unit basis to be paid on a monthly basis. However, no annual cap was estimated for the agreement for the year ended 31 December 2013. Therefore, no office equipment has been rented nor has any payment been made by Energy Resources LLC for the year ended 31 December 2013 under this agreement.

(2) Master Agreement for ICT Services and Supply

Principal Terms

On 3 April 2012, the Company entered into an agreement with MCS Electronics LLC, a then subsidiary of MCS Holding LLC, whereby MCS Electronics LLC agreed to provide services including (i) internet connection services (ii) intranet services (iii) iridium and satellite internet service for Ulaanbaatar headquarter office and camp sites located at the UHG and BN mines and TKH; (iv) IT equipment and server rent services; (v) fiber optic line rent and maintenance services; (vi) IP line rent services; (vii) services for the maintenance of sure clock system for registration of attendance of employees; (viii) services for the maintenance of reliable operations of a computer program in relation to finance and accounting; (ix) services for maintenance of GPS system installed with coal hauling trucks; (x) supply of laptops, computers, printers, copiers, projectors, UPS, monitors, flash discs, external HDD, cameras (Digital Video/Photo), CCTV, Kenwood radio (Hand device), tetra radio, servers storage, RFID (Reader for weigh bridges), video conference sets and other IT hardware; and (xi) fiber optic network installation in the areas between UHG mine to BN mine, UHG camp to Tavan Tolgoi Airport, inside of UHG mine site including CHPP, water supply facilities, power plant and Transgobi office, and 50 km far away boreholes in Naimdain Khundii and any additional site/area to the Group for a period commencing from 3 April 2012 to 31 December 2014.

Connected Person

Before May 2013, MCS Electronics LLC was a subsidiary of MCS Holding LLC which is in turn wholly-owned and controlled by MCS (Mongolia) Limited which directly owns a 100% shareholding interest in MCS Mining Group Limited, a controlling shareholder of the Company. As such, MCS Electronics LLC was a connected person of the Company before May 2013. As MCS Holding LLC disposed of its entire interest in MCS Electronics LLC in May 2013, MCS Electronics LLC is no longer a connected person of the Company from May 2013. However, as MCS Electronics LLC continues to sub-contract certain of its obligations under the agreement to certain subsidiaries of MCS Holding LLC who are connected persons of the Company, transactions under this agreement may be connected transactions. For the purpose of disclosure, the Directors have deemed all transactions under this agreement to be connected transactions.

Consideration

The fees payable by the Group to MCS Electronics LLC under this agreement were determined on an arm's length basis based on normal commercial terms between the Group and MCS Electronics LLC and will be paid on a monthly basis. Estimated annual cap for this agreement is MNT4,843,523,888 (equivalent to approximately USD3,679,483) for the year ended 31 December 2013.

Transaction (excluding VAT) of MNT877,647,009 (equivalent to approximately USD575,876) has been incurred at the Group for the year ended 31 December 2013 under this agreement.

(3) *Office and camp supporting services agreement*

Principal Terms

On 22 July 2011, the Group entered into a service agreement with Uniservice Solution LLC, a subsidiary of MCS Holding LLC, pursuant to which Uniservice Solution LLC conditionally agreed to provide office and camp supporting services to the Group for a period commencing from 31 August 2011 to 31 December 2013.

Connected Person

Uniservice Solution LLC is a subsidiary of MCS Holding LLC which is in turn wholly-owned and controlled by MCS (Mongolia) Limited which directly owns a 100% shareholding interest in MCS Mining Group Limited, a controlling shareholder of the Company. As such, Uniservice Solution LLC is a connected person of the Company.

Consideration

Estimated annual cap for this agreement is USD34,481,572 for the year ended 31 December 2013 and is payable on a monthly basis.

Transaction (excluding VAT) of MNT14,442,132,075 (equivalent to approximately USD9,476,340) was incurred at the Group for the year ended 31 December 2013 under this agreement.

The consideration payable to Uniservice Solution LLC was determined on an arm's length basis based on bid submitted by Uniservice Solution LLC and based on the size of the location where services are to be provided and the number of employees utilising the camp site and the temporary ger camp located at the UHG mine, BN mine and TKH.

(4) *Power and heat generation, distribution and management agreement*

Principal Terms

On 9 May 2011, Energy Resources LLC, an indirect wholly-owned subsidiary of the Company, entered into an agreement with MCS International LLC, a subsidiary of MCS Holding LLC, whereby MCS International LLC agreed to provide services including operating management of the UHG Power Plant, electricity distribution services, and heat distribution services to the Group for an initial period of 18 months commencing from 9 May 2011. On 3 April 2012, the parties entered into an amendment agreement whereby the parties agreed to extend the contract period of the agreement until 31 December 2014.

Connected Person

MCS International LLC is a subsidiary of MCS Holding LLC which is in turn wholly-owned and controlled by MCS (Mongolia) Limited which directly owns a 100% shareholding interest in MCS Mining Group Limited, a controlling shareholder of the Company. As such, MCS International LLC is a connected person of the Company.

Consideration

Estimated annual cap for this agreement is MNT22,202,816,264 (equivalent to approximately USD16,866,827) for the year ended 31 December 2013 and will be paid on a monthly basis.

Transaction (excluding VAT) of MNT20,394,735,884 (equivalent to approximately USD13,382,197) was incurred at the Company for the year ended 31 December 2013.

The consideration was determined on an arm's length basis between Energy Resources LLC and MCS International LLC based on normal commercial terms.

(5) 2011 Fuel Supply Agreement with NIC LLC

Principal Terms

On 22 July 2011, the Group entered into a fuel supply agreement with NIC LLC, pursuant to which NIC LLC conditionally agreed to supply fuel products including diesel fuel and other types of fuel to the Group. It was also agreed that NIC LLC may sub-contract its obligations under the agreement to Shunkhlai LLC and Gobi Oil LLC to supply fuel products to the Group in compliance with the terms and conditions of the agreement until 31 December 2013.

Connected Person

NIC LLC is an associate of Dr. Oyungerel Janchiv, a non-executive Director. Shunkhlai LLC is an associate of Mr. Batsaikhan Purev, a non-executive Director. As such, each of NIC LLC and Shunkhlai LLC is a connected person of the Company. Gobi Oil LLC, a sub-contractor of NIC LLC, is no longer a connected person of the Company from 21 June 2011.

Consideration

Estimated annual cap for this agreement is USD392,493,750 for the year ended 31 December 2013 and is payable to NIC LLC on a monthly basis.

Transaction (excluding VAT) of MNT183,676,772,524 (equivalent to approximately USD120,521,235) was incurred at the Company for the year ended 31 December 2013 under the agreement.

The consideration was determined by tendering proposal submitted by NIC LLC which is based on market rate of fuel products.

(6) 2013 Fuel Supply Agreement with NIC LLC

Principal Terms

On 18 October 2013, Energy Resources LLC, an indirect wholly-owned subsidiary of the Company, entered into a fuel supply agreement with NIC LLC, pursuant to which NIC LLC conditionally agreed to supply fuel products including diesel fuel, lubricants and other types of fuel to the Group and provide other related services at the UHG mine site and BN mine site. The agreement is for a term of three years commencing from 1 January 2014 to 31 December 2016.

Connected Person

NIC LLC is an associate of Dr. Oyungerel Janchiv, a non-executive Director and therefore, NIC LLC is a connected person of the Company.

Consideration

The maximum consideration payable under this agreement is USD784,369,936 payable on a monthly basis within 60 days upon receipt of valid invoice from NIC LLC. The consideration was determined by the tender proposal submitted by NIC LLC which is based on market rate of fuel products.

Services under this agreement are commencing from 1 January 2014 and estimated annual caps for the three financial years ending 31 December 2016 are USD202,808,966, USD254,580,068 and USD326,980,902, respectively. As such, no payment was made by the Group for the year ended 31 December 2013 under the agreement.

(7) 2013 Fuel Supply Agreement with Shunkhlai LLC

Principal Terms

On 18 October 2013, Transgobi LLC, an indirect wholly-owned subsidiary of the Company, entered into a fuel supply agreement with Shunkhlai LLC, pursuant to which Shunkhlai LLC conditionally agreed to supply fuel products including diesel fuel, gasoline and other types of fuel to the Group and provide other related services at the UHG mine site and TKH site for the Group's coal transportation and logistics operations. The agreement is for a term of three years commencing from 1 January 2014 to 31 December 2016.

Connected Person

Shunkhlai LLC is an associate of Mr. Batsaikhan Purev, a non-executive Director and therefore, Shunkhlai LLC is a connected person of the Company.

Consideration

The maximum consideration payable under this agreement is USD169,373,021 payable on a monthly basis within 60 days upon receipt of valid invoice from Shunkhlai LLC. The consideration was determined by the tender proposal submitted by Shunkhlai LLC which is based on market rate of fuel products.

Services under this agreement are commencing from 1 January 2014 and estimated annual caps for the three financial years ending 31 December 2016 are USD51,846,268, USD56,144,383 and USD61,382,370, respectively. As such, no payment was made by the Group for the year ended 31 December 2013 under the agreement.

(8) 2013 Service Agreement

Principal Terms

On 18 October 2013, Energy Resources LLC, an indirect wholly-owned subsidiary of the Company, entered into a service agreement with Uniservice Solution LLC, a subsidiary of MCS Holding LLC, pursuant to which Uniservice Solution LLC conditionally agreed to provide office and camp supporting services to the Group for a period commencing from 1 January 2014 to 31 December 2016. The agreement is for a term of three years.

Connected Person

Uniservice Solution LLC is a subsidiary of MCS Holding LLC which is in turn wholly-owned and controlled by MCS (Mongolia) Limited which directly owns a 100% shareholding interest in MCS Mining Group Limited, a controlling shareholder of the Company. As such, Uniservice Solution LLC is a connected person of the Company.

Consideration

The maximum consideration payable under this agreement is MNT72,957,978,408 (equivalent to approximately USD43,026,555) payable on a monthly basis within 60 days upon receipt of valid invoice from Uniservice Solution LLC. The consideration was determined based on the size of the location where services are to be provided and the number of employees utilising the camp site and the temporary ger camp located at the UHG mine site and BN mine site and on an arm's length basis between the Company and Uniservice Solution LLC based on the bid submitted by Uniservice Solution LLC.

Services under this agreement are commencing from 1 January 2014 and estimated annual caps for the three financial years ending 31 December 2016 are MNT24,319,326,136 (equivalent to approximately USD14,342,185), MNT24,319,326,136 (equivalent to approximately USD14,342,185) and MNT24,319,326,136 (equivalent to approximately USD14,342,185), respectively. As such, no payment was made by the Group for the year ended 31 December 2013 under the agreement.

(9) Security Services Agreement

Principal Terms

On 18 October 2013, Energy Resources LLC, an indirect wholly-owned subsidiary of the Company, entered into a security services agreement with MCS Armor LLC, a subsidiary of MCS Holding LLC, pursuant to which MCS Armor LLC conditionally agreed to provide security services, safeguarding and services for prevention of unlawful conducts and violations at the Ulaanbaatar office, UHG mine site, BN mine site, TKH site and other premises of the Group and vehicle inspection and safety assurance services for the Ulaanbaatar office of the Company on a day-to-day basis. The agreement is for a term of three years commencing from 1 January 2014 to 31 December 2016.

Connected Person

MCS Armor LLC is a subsidiary of MCS Holding LLC which is in turn wholly-owned and controlled by MCS (Mongolia) Limited which directly owns a 100% shareholding interest in MCS Mining Group Limited, a controlling shareholder of the Company. As such, MCS Armor LLC is a connected person of the Company.

Consideration

The maximum consideration payable under this agreement is MNT12,933,103,680 (equivalent to approximately USD7,627,225) payable on a monthly basis within 60 days upon receipt of valid invoice from MCS Armor LLC. The consideration was determined on an arm's length basis between the Company and MCS Armor LLC based on the bid submitted by MCS Armor LLC.

Services under this agreement are commencing from 1 January 2014 and estimated annual caps for the three financial years ending 31 December 2016 are MNT4,311,034,560 (equivalent to approximately USD2,542,408), MNT4,311,034,560 (equivalent to approximately USD2,542,408) and MNT4,311,034,560 (equivalent to approximately USD2,542,408), respectively. As such, no payment was made by the Group for the year ended 31 December 2013 under the agreement.

The independent non-executive Directors reviewed the CCTs of the Group pursuant to Rule 14A.37 of the Listing Rules.

In the opinion of the independent non-executive Directors, the CCTs were entered into by the Group:

(i) in the ordinary and usual course of business of the Company;

(ii) on normal commercial terms or on terms no less favourable than those available to or from independent third parties; and

(iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor, KPMG, was engaged to report on the Group's CCTs for the year ended 31 December 2013 in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants.

Based on the work performed, the auditor of the Company confirmed to the Board of Directors of the Company that in respect of disclosed CCTs:

(a) nothing has come to the attention of the auditor that causes them to believe that the disclosed CCTs have not been approved by the Board;

(b) for the transactions involving the provision of goods and services by the Group, nothing has come to the attention of the auditor that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group;

(c) nothing has come to the attention of the auditor that causes them to believe that the transactions were not entered into, in all respects, in accordance with the relevant agreements governing such transactions; and

(d) with respect to the aggregate amount of each of the CCTs set out in items (1) to (9), nothing has come to the attention of the auditor that causes them to believe that the disclosed CCTs have exceeded the maximum aggregate annual value disclosed in the announcements made by the Company in respect of each of the disclosed CCTs.

The auditor has issued its unqualified letter containing its findings and conclusions in respect of CCTs set out above in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

In respect of the CCTs, the Company has complied with the disclosure requirements under the Listing Rules.

Sustainability Report

OUR APPROACH TO SUSTAINABLE DEVELOPMENT

Given its leadership position in the Mongolian coal industry, MMC makes it a priority to improve its commitment to sustainable development by seeking better alignment between its project development and its sustainability dimensions which include aspiring to 'Zero Harm' to our people, host communities and the environment. While being accountable for the social, economic and environmental impacts of our mining activity, we seek to create value in society through a sound governance framework and an effective sustainable development strategy.

The Company's Sustainable Development ("**SD**") Policy, coupled with its Corporate Social Responsibility ("**CSR**") policy, defines and guides our approach towards sustainability and our responsibility towards diverse stakeholder groups. At the core of our approach are the needs and expectations of future generations that must be adequately considered in utilising natural resources and a belief that the benefits of economic activity must appropriately account for their respective social and environmental consequences.

Based on the Environmental and Social Impact Assessments ("**ESIA**") of the project and consultations with our stakeholders, we devised designated management systems and plans to ensure the effective mitigation and management of any adverse impacts associated with our mining projects. Likewise, we measure our performance annually and revise our targets and report our sustainability performance to the public on a bi-annual basis.

We are working towards implementing international best practices such as ISO 14001, OHSAS 18001, ISO 26000 and the guidelines provided by the International Council on Mining and Metals into our sustainability management to further enhance our sustainability performance.

We believe that aiming to further strengthen our sustainable development performance is crucial for our long-term business success and competitive advantage. A sound management of sustainability issues ensures that we are able to attract and retain our workforce, enhance our reputation, attract future investments, reduce business risks and increase opportunities.

The following seven principles underpin the Company's CSR policy and serve to guide and enforce the CSR framework:

- ***Accountability*** – To be accountable for our impact on society, the economy and the environment;

- ***Transparency*** – To disclose to the public in a clear, accurate and complete manner the policies, decisions and activities for which the Company is responsible;

- ***Ethical behavior*** – Our behavior should be based on the values of honesty, equity and integrity;

- ***Respect for stakeholder interest*** – We should respect, consider and respond to the interests of the various stakeholders of the Company;

- ***Respect for the rule of law*** – We accept that respect for the rule of law is mandatory and will abide by it;

- ***Respect for international norms of behavior*** – We respect international norms of behavior while adhering to the principle of respect for rule of law;

- ***Respect for human rights*** – We respect human rights and recognise both their importance and universality.

Based on the aforementioned principles and proactive engagement with our stakeholders, MMC has identified five key areas of focus for its CSR efforts. These include fair operating practices, human rights, environmental stewardship, labor practices and community engagement and development.

BUSINESS INTEGRITY

Code of conduct

We believe that the highest level of personal and professional integrity is essential for the long-term successful operation of our business. As such, we expect all our employees and executives to uphold and abide by our business Code of Conduct (the "**Code**") in dealings with fellow employees, customers, suppliers or other stakeholders with whom we may interact, in our capacity as employees and representatives of the Company. The Code embodies guidance on conducting our operations in an ethical manner in accordance with the relevant laws, rules and regulations. Through the Code, we seek to set employee expectations with respect to matters such as the prevention of harassment, discrimination, conflicts of interest, bribery and corruption, among others. All our employees are required to read and acknowledge the Code. Violations of the Code are not taken lightly, and can result in disciplinary actions that include termination of employment if necessary.

Human rights

The United Nations ("**UN**") endorsed the Guiding Principles for Business and Human Rights (the "**Guiding Principles**") in 2011. These principles help ensure that companies do not violate human rights in the course of their operations, and they provide remedial actions when infringements occur. MMC respects and supports the rights of its employees and the people of our host communities. As part of this commitment, we endorse the Guiding Principles as a comprehensive, practical framework that sets out the responsibilities of governments and corporations in protecting human rights.

Through our human rights risk assessment, we identified the following areas within the sphere of our influence to focus our efforts in promoting human rights:

- *Labor*: The rights of our employees and contractors to fair remuneration, equal pay for equal work, freedom of association, a safe and healthy workplace, non-discrimination and protection of their legal rights;
- *Security*: The provision of private security personnel to protect our operations at certain specific locations where there may be a threat to our people and/or our assets;
- *Communities*: The impact our operations may have on communities, including disputes relating to use of land and mineral assets, displacement of communities, impacts to culturally sensitive resources, access to resources and economic benefits.

At our operational sites and offices, we aim to ensure that equal opportunity is afforded to all our employees irrespective of race, nationality, religion, age, gender, sexual orientation, disability, political opinion or any other basis. We uphold the UN Universal Declaration of Human Rights and the International Labour Organisation ("**ILO**") Declaration on Fundamental Principles and Rights at Work. Our employees are free to exercise freedom of association and freedom of speech. We operate feedback boxes at the mine sites to allow employees to express their opinions and report any breaches of ethical conduct and behavior, including employment rights. Our security guards, managers and human resources ("**HR**") staff are trained in aspects that include harassment, equal opportunity and personnel searching.

Based on the Human Rights Risk Assessment conducted in 2010, we have established a Human Rights Task Force to oversee the implementation of our Human Rights Program, which addresses our corporate sustainability policy in the area of human rights. Within the framework of the program, we provide customised training on Voluntary Principles on Security and Human Rights to ensure that our security measures are responsible and do not violate human rights. We also maintain constructive dialogue platforms with various statutory bodies and non-governmental organisations ("**NGOs**") and the local community and cooperate with them closely to ensure that no human rights abuses occur in our operations and the communities in which we operate.

No human rights abuses were reported or identified at any of our operations in 2013. In addition, there were no strikes or lockouts at our operations.

Forced labor & child labor

The Company does not engage in or support the use of any type of forced or compulsory labor as defined by the ILO as "all work or service which is exacted from any person under the menace of any penalty and for which the said person has not offered himself voluntarily". It is our firm belief that an employee should have the right to leave the work premises after completing the standard workday and to terminate employment after giving reasonable notice. MMC does not employ a person who is under the national legal age of employment and in line with our recruitment policy, we employ people aged 18 or older. Instead, the Company promotes education of children and young workers through its community investments under its Education Support Program.

Our recruitment officers are trained to ensure that no child is ever employed at our sites and that our HR functions are externally audited by the State Specialised Inspection Agency at least once a year. To date, no cases of underage or forced labor among our employees were reported since our operations began in 2009.

Transparency

Gaining the trust of our stakeholders is essential for our continued operations and we seek to ensure maximum transparency that is commercially viable through our public reports that encompass financial statements and our operational and sustainable development performance in accordance with the requirements of our lenders and shareholders. In addition, in line with our Public Consultation and Disclosure Plan ("**PCDP**"), we disclose project related information to our impact communities.

Extractive Industry Transparency Initiative ("**EITI**") is a coalition of governments, companies and civil society groups, investors and international organisations. It supports improved governance in resource rich countries by the verification and full publication of company payments and government revenues from oil, gas and mining. The Company has adopted the EITI voluntary initiative, and as part of its commitment to transparency, the Company has been disclosing its payments to the government every year since 2009. By disclosing payments made to different government organisations and the state budget, we are contributing to our stakeholders' efforts to strengthen governance by improving transparency and accountability throughout Mongolia's extraction sector.

Fair operating practices

We believe that bribery, corruption, unfair supply chain practices and other similar behavior that violates the rule of fair play would negatively affect the Company's image and could undermine its future performance. Hence, we do not tolerate any form of bribery and fraud and will take consistent and swift action if it is discovered. MMC strives to implement socially responsible supply chain practices and anti-corruption practices working closely with its suppliers and relevant government agencies. For example, the Company joined the World Economic Forum's initiative, Partnering Against Corruption Initiative, a national anti-corruption network in which 168 pioneering national companies have agreed to combine their efforts in strengthening corporate governance standards and business integrity in Mongolia.

We require all suppliers and contractors to comply with our social and Health, Safety and Environment ("**HSE**") standards and select suppliers based on number of factors that include cost, S-capital HSE and social performance and product quality, among others. A system is in place to ensure that our procurement practices are free of unfair business dealings.

We are committed to cooperative, respectful and positive dialogue with policymakers and other government agencies of Mongolia. We believe this should be based on genuine consultation and accountability. In doing so, MMC participates in and contributes to all major public policy discussions and initiatives through proactive engagement with policymakers on a wide range of issues that include dialogue on the operational and legal environment surrounding the mining industry in Mongolia.

OUR PEOPLE

The sustainability of our workforce is essential for MMC's enduring success and relies heavily on our ability to attract, retain and develop a firm HR base. Therefore, in addition to providing clear and attractive career paths, we make it a priority to provide a safe, healthy and fair working environment where the best talents can be nurtured and their full potential realised. As stated in our Code, we have a strong set of values based on mutual respect, fairness and integrity. We are an equal opportunities employer and value the benefits of diversity in our employee base. Local employment is strongly favored and supported where possible, and through our community development strategy, we seek to recruit at least 30% of our workforce from local communities. Our compensation and benefit schemes are reviewed on a regular basis to ensure its competitiveness in terms of pay, incentive plans and other benefits.

Highlights of 2013

- Focused on optimising the Company's organisational structure and labor productivity, including performing job position analysis, merging of some job responsibilities and revision of job description on some job posts;
- Reviewed and modified the organisational structure to ensure effective leadership and to improve organisational integration and communication;
- Updated the Relocation Policy, which enables all Company employees working on site to buy an apartment with financial assistance from the Company;
- In order to efficiently manage staff payroll, the Company is in the process of introducing a system of administering the Company's payroll via the integrated Oracle Enterprise Resource Planning software;
- Transferring of more authority to the site based management enabled faster decision making, which resulted in better productivity.

Non-discrimination & equal opportunity

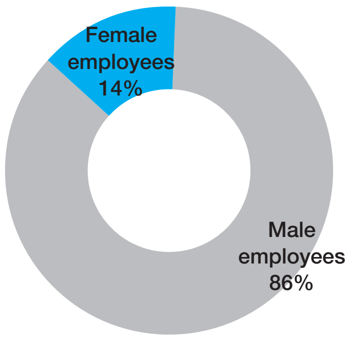
As it is our firm belief that diversity encourages creativity, we do not tolerate any forms of workplace discrimination in terms of race, gender, nationality, age, religion, political views, pregnancy or disability among others in our employment practices. As of 31 December 2013, we had a total of 2,272 employees of which approximately 43% are from the local community. We employ people on the basis of job requirements and matching skills, but seek to give preferential employment to local people where possible in order to create value in the communities in which we operate.

The workforce in the mining industry is predominantly male and due to the labor intensive nature of the industry, the percentage of our female employees stands relatively low at 14% for the year ended 2013. However, the percentage of female employees in senior management position stands much higher at 30%.

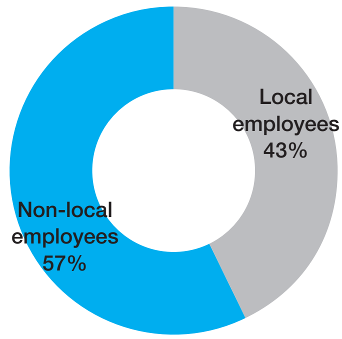
We consider men and women equally in our search for new employees, and men and women employed in the same job category receive the same remuneration according to their level of experience and length of employment. As a responsible company, we will continue to look for ways to encourage higher participation rate of women in the workforce through our HR policies and flexible work practices.

MMC's policy of equal opportunity is reflected in its Code, recruitment policy, benefits policy, training and development policy, promotions, compensation and other aspects. During the year under review, no cases of discrimination were recorded at our sites and offices.

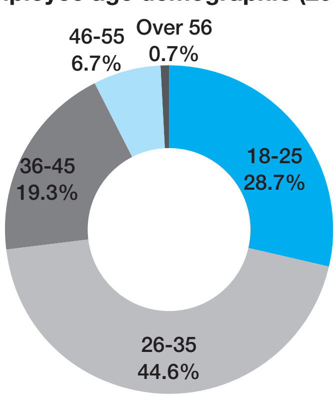
Percentage of female employees (2013)



Percentage of local employees (2013)



Employee age demographic (2013)



Percentage of female employees in management positions (2013)

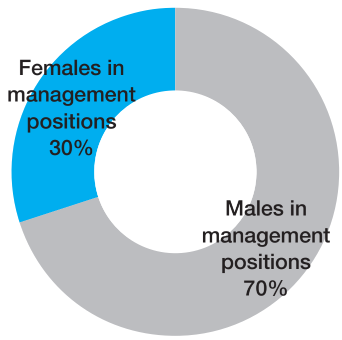


Table 16. HR statistics

MMC		2011/12/31	2012/12/31	2013/12/31
1.	Total number of employees	2,177	2,568	**2,272**
2.	Number of female employees	348	449	**324**
3.	Percentage of local employees	29.8%	35.6%	**43.3%**

Employee remuneration and benefits

Our remuneration and compensation strategy aims to attract, retain and motivate our workforce. MMC offers all its employee competitive salaries, and they are reviewed annually to account for the individual's role and local market trends. We offer competitive compensation packages and welfare benefits for all employees consistent with the Mongolian labor market.

MMC employees are offered a range of benefits that include bonus and incentives schemes, parental leave, free-of-charge comprehensive medical check-ups, assistance with housing costs, access to low interest loans, monetary allowances for phone use and transportation and subsidies for a range of health and wellness activities. The benefits are offered to all employees irrespective of their position and length of employment with the Company.

The Company's bonus or the incentives plan is tied to our financial performance and individual employee and team performances. To date, our recruitment and retention challenges were addressed through updates of our salary scale, which introduce a more comprehensive benefits scheme and offer share options.

CASE STUDY: MMC continues to support its relocated employees

With the aim of making further cuts to our operational expense and of supporting the social welfare of our employees, the Company aims to localise its operational workforce in Tsogttsetsii soum, Umnugobi aimag rather than operate a fly-in/fly-out model which has a tendency of exacerbating employee turnover and family issues such as separation and divorce that result from being away from family for extended periods of time. Our Relocation Policy, which has been in effect since 2011, aims to encourage our staff to relocate to the area of our operation by assisting with financial and other means of support in improving their living conditions, including housing and access to better education for their children. To that end, the Company implemented a range of initiatives such as construction of the "*Tsetsii Town*" township project; construction of a new secondary school, kindergarten and dormitory complex; establishment of the "*Miners*" ger district and establishment of the "*Zuzaakhai*" kindergarten, to name few.


"Tsetsii Town" project in Tsogttsetsii soum, Umnugobi aimag

In 2013, in order to further support our relocated employees and to reduce employee turnover due to roster-based work, the Company enabled employees to own apartments in "*Tsetsii Town*" regardless of their length of employment with the Company. For those taking out mortgages, the Company agreed to provide financial assistance with down payments and/or monthly payments. During the year under review, the township expanded by more than 260 new apartment units, all of which were allocated to MMC employees as part of the Employee Relocation Policy.

Employee turnover

In 2013, our total employee turnover stood at 27.9%, an increase of 3.9% compared to 2012. The most common cause for turnover is employee violation of internal labor procedures. During the year under review, several major organisational and structural changes took place which had substantial impact on the employee turnover rate, including the transferring of the Company's rail project to the GoM, the completion of the final module of the UHG Project's CHPP and the transfer of the Coal-to-Liquid project to MCS Group. Although the employee turnover rate increased slightly compared to the previous year, this was effectively in line with MMC's strategy to further enhance the Company's labor productivity.

Training and development

We are committed to working with all of our people to help them reach their full potential, achieve job satisfaction and maximise their contribution to the Company. In MMC, training and development is recognised as a vital aspect of our achievement, and the performance of each employee effectively impacts the Company's performance as a whole. The need for qualified personnel is a challenge in the Mongolian mining sector, and we invest consistently in the training of professionals to work in the sector. Our training programs encompass technical training, management development training and other job specific training.

In 2013, MMC focused mainly on conducting in-house training rather than outsourcing with the aim to cutting costs and improving operational efficiency. During the year under review, we conducted 71 types of training sessions, of which 51 involved professional and vocational training and the remaining 20 involved general corporate skills training.

Table 17. Training highlights

2013 TRAINING HIGHLIGHTS	
Total number of participants in professional and vocational training sessions	303
Total number of participants in corporate skills training sessions	340

All MMC employees receive regular performance reviews. Individual job descriptions and action plans allow employees to participate in the process of setting objectives to measure their own performance.

HEALTH, SAFETY & ENVIRONMENT

MMC's HSE performance is driven by our commitment to 'Zero harm' to our people and communities and minimising adverse impacts on the environment. As such, we instituted an integrated HSE management system that enables continued improvements. Within the framework of the HSE policy, we are committed to the following HSE principles:

- Identifying, assessing and managing the risks to employees, contractors, communities and the environment;
- Complying with the applicable national and international legal and other requirements;
- Enforcing an accountability mechanism that ensures each and every employee contributes to providing a safe, healthy workplace and preventing all types of environmental pollution;

- Providing relevant HSE training for employees, contractors and our local community;
- Ensuring that the Company management at all levels are HSE role models and lead by example;
- Taking all necessary measures to prevent industrial accidents and environmental incidents. In the event of any accidents or incidents, we will investigate the root cause and take swift action to rectify the risk and ensure no re-occurrence of the same incident;
- Assessing, reporting and managing any potential HSE risks are duties of all employees;
- Auditing our HSE management system and taking measures to rectify any gaps;
- Reviewing and assessing the HSE performance of individual employees;
- Supporting and rewarding the practice of receiving HSE risk reports from local community members and actively cooperating with them to eliminate risks.

The HSE policy seeks to strengthen leadership of managers at all levels and to involve all employees in the implementation of the policy. In 2013, the Company continued its efforts to prevent illnesses, injuries and environmental incidents. Within the framework of this effort, the Company is introducing the internationally endorsed occupational health and safety ("**OHS**") management system OHSAS 18001 and environmental management system ISO14001. To date, we have been implementing 64 internal regulations and procedures that deal with environmental and OHS issues such as regulations on waste, chemicals, spill control, incidents, personal protection equipment, training, etc. The HSE management system consists of Policies, Standards, Procedures, Plans, Manuals, Guidelines, Forms, Checklists and Registers. These documents are arranged hierarchically. Policies, Standards, Plans and Standard Operating Procedures are mandatory and apply to all of MMC's business activities, including that of its contractors. It is also designed according to the principle of continual improvement by adopting the methodology of Plan, Do, Check and Review system cycle.

Occupational health and safety

Nothing is more important to MMC than the safety, health and well-being of our employees. Consequently, we pursue excellence in OHS and are committed to meeting the most vigorous OHS standards and practices to ensure an incident-free, safe and healthy workplace where our employees can realise their full potential. Our systems and processes seek to provide to all employees and contractors the necessary tools and skills to practise safe work behaviors and make each individual accountable for the implementation of the HSE policy and its accompanying standards, rules and procedures. The HSE department developed an OHS responsibility matrix that defines each employee's duties and responsibilities in implementing the HSE policy. Currently, we are working towards reflecting the aforementioned duties and responsibilities matrix into each job description and providing the relevant training and induction thereof.

The following are the key achievements in the area of OHS in 2013:

- The LTIFR, an injury frequency rate expressed as the number of injuries per million hours worked, was 1.23 for 8,154,576 man hours recorded within the Company's coal mining, processing and transportation operations for the whole year of 2013. In comparison, the Queensland Government publicly reported that the average LTIFR at surface coal mining operations in Queensland, Australia was 3.5 for the period from 1 July 2012 to 30 June 2013;
- No occupational illnesses were recorded;
- No fines were imposed;
- Site safety inspections were carried out at more than 453 workplaces, and all identified hazards were investigated in order to discover and eliminate root causes;
- A total of 94 workplace safety risk assessments were conducted in 2013 to minimise or eliminate work-related hazards and to enhance awareness of daily safety routines among our employees.

Table 18. Safety data

Indicators	2011	2012	2013
Total man-hours worked	9,478,601	8,380,412	**8,154,576**
Fatalities	0	1	**1**
Total recordable injury frequency	4.77	3.94	**3.56**
Lost time injury frequency (LTIFs)	1.67	0.71	**1.23**
Legal compliance	100%	94%	**No state inspection in 2013**
Incidences (total lost workdays/total hours worked)	0.000034	0.000019	**0.000028**
Safety inductions (number of employees and contractors covered)	5,403	6,783	**12,881**

In connection to the restructuring of the Company's HSE department, a separate Training unit was established to operate under the HSE department alongside the Environment, Safety, Emergency Response and Health units. In previous years, the Company had training officers in different departments and units, each responsible for their own line of activity. The restructuring integrated all training personnel under a single unit, which enabled us to conduct more diversified in-house training and re-inductions for all MMC staff and its contractors on a regular basis.

MMC aims to achieve the goal of zero fatalities. Despite our best efforts, a single occurrence of fatal incident was registered in 2013 at our UHG operation in Tsogttsetsii soum, Umnugobi aimag. In November 2013, an unfortunate industrial accident occurred involving a collision between a CAT793D dump truck and a Genie Boom lift which resulted in the fatality of the Genie operator. The Company's emergency response unit acted immediately but the injured person was declared deceased at the scene by our emergency response doctor who performed all possible life support measures. The case was investigated internally by the Company and by the State Health and Safety Inspection Agency. Both incident reports concluded that the fatal accident occurred as the result of the driver of the dump truck being distracted on the road and his failure to maintain an appropriate distance from the vehicle in front, thereby violating dump truck operation regulation 4.6, which states that "*drivers should maintain a distance of 50m from the vehicle in front*". The Company fully cooperated with the relevant law enforcement and inspection agencies in determining the cause, and is committed to making every effort to prevent accidents and minimising risks through controlling hazards present with our operations. Accordingly, immediate follow-up actions were taken by the Company's OHS department. These measures included but were not limited to:

- Revision and re-implementation (including training) of the Standard Operating Procedure for Vehicle Escort;
- Updating and re-implementation (including training) of the Traffic Management Plan;
- Reviewing available proximity detection and collision avoidance technologies and its applicability, availability and costing;
- Reviewing equipment operator training materials to ensure that safe following distances are stipulated in each;
- Updating of Class 1 Risk register to include additional traffic management controls;
- Considering alternatives to Genie or alternative transport for genie to avoid requirement for interaction between slow moving equipment and normal traffic on site.

The Company's safety managers will continue to focus on preventing incidents as well as encouraging the adoption of safety measures; improvements to facilities and equipment; changes in conduct, training and awareness raising campaigns; and inspections and audits.

We believe that if we are to succeed in our aim of 'Zero harm', we need to understand the potential health risks and establish suitable mitigation measures. Hence, controlling, reducing and preventing health hazards in our operations is one of MMC's core objectives. The main occupational health challenges that pose threat to our employee wellbeing are fatigue, muscular-skeletal injuries, noise induced hearing loss, stress, dust related respiratory illnesses and infectious diseases. In accordance with our Occupational Health and Disease Policy, we identify job positions in which our people are exposed to occupational health hazards, and actions are in place to prevent and mitigate discovered hazards. Other preventative measures include building awareness and knowledge of disease and other health hazards through internal training and awareness campaigns. We have a 24/7 stand-by medical team and emergency response teams working on-site to ensure that any accidents and emergencies are responded to immediately. No occupational illnesses were recorded for the year ended 2013.

Our employees are also part of the local communities in which we operate, and any public health issues confronting the community affect our workforce as well. Local health authorities often do not have the resources to deal with major public health challenges. Therefore, we work in partnerships with local communities, public health authorities and other stakeholders to improve education on, protection from and prevention of public health risks and widespread diseases. In the past, the Company implemented free of charge community health screenings and health awareness campaigns.

Environmental stewardship

Our commitment to responsible environmental stewardship is outlined in the HSE policy and is central to our continued operation. We minimise the adverse impacts of our operations on the environment through robust environmental management systems and processes that include assessing and identifying risks and opportunities, compliance monitoring and reporting of performance.

Key environmental challenges for us are minimising dust and noise emissions from our operations, efficient use of resources such as water and land, responsible management of biodiversity issues and preventing all forms of environmental pollution and incidents.

Individual management plans are devised along with KPIs based on the results of our project ESIA, which were conducted early in the project cycle. The following six environmental management plans are in place to ensure that we are accountable for our environmental footprint:

- Dust Management Plan;
- Erosion and Sediment Control Plan;
- Waste Management Plan;
- Hazardous Waste Management Plan;
- Tailings Storage Facility ("**TSF**") Management Plan;
- Mining Closure and Reclamation Plan, and Monitoring Plan.

The implementation of environmental management plans are reviewed annually against various KPIs. Based on the outcomes of the review, corrective actions are taken with the aim of continuous improvement.

The following are our key activities and performance in 2013:

- The UHG project's Detailed Environmental Impact Assessment and the Environmental Management Plans were revised in accordance with the amended Law on Environmental Impact Assessment and were approved by the Ministry of Nature and Green Development of Mongolia in June 2013;

- The Company built and commissioned a BFP facility at the CHPP, designed to extract water for reuse from the fine tailings previously recycled through the TSF. The new technology will approximately double the amount of water recycled from the fine tailings stream, from approximately 35% to 70%, through avoidance of evaporation losses in the TSF;

- A waste recycling facility was established at the mine site, which has the capacity to provide employment for 23 people;

- No critical environmental incidents and no cases of legal non-compliance were recorded in our operations in 2013;

- Our environmental incident classification system was modified, becoming more stringent. This allows us to better control incidents and prevent their re-occurrence;

- The forest belt project in Tsogttsetsii soum, Umnugobi aimag has been continued successfully with approximately 13,000 trees and shrubs currently growing in the forest belt at a 95% survival rate;

- A total of 21,050 shrubs, trees and perennial plants from the nursery field were prepared and donated for planting in the forest wind belt. Waste rock dump rehabilitation and landscaping at the power plant and "Muruudul" educational complex were also carried out;

- Dust control measures continued to be improved, and the mine pit coal haul road was treated with better binding materials which in turn decreased the use of treated water for dust suppression and the amount of dust generated by trucks.

Environmental incidents

All occurrences of environmental incidents are investigated, remedied, monitored and reported by our environment team to prevent re-occurrence in the future. The main types of environmental incidents applicable to our business are noise and dust exceeding allowed limits, spills, improper use and storage of chemical substances and hazardous materials, wildlife deaths, improper disposal of waste and other incidents that impact the environment and biodiversity negatively.

We have developed an internal rating scale for incidents according to their severity. In MMC, environmental risk ratings are classified as low, moderate, high and critical, the definitions of which can be found below. During the year under review, we have revised our risk ratings and adopted a more stringent definition.

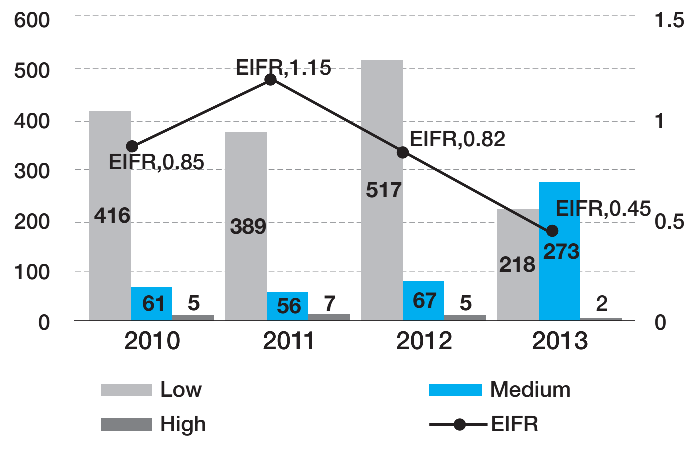
Table 19. Environmental incident classification

Risk rating	Definition used in 2010-2012	Definition adopted in 2013
Low	Incidents with promptly reversible environmental impacts (waste, soil degradation, sewage spill, environmental hygiene)	Incidents in which the environment is not affected (waste sorting, soil degradation)
Medium	Incidents with low environmental impact or procedural non-compliance (oil spill, chemicals)	Incidents with short term, low environmental impact or procedural non-compliance (sewage spill, environmental hygiene, chemicals, hazardous waste, oil spill)
High	Incidents of non-compliance or incidents with moderate environmental impact	Incidents with long term moderate environmental impact
Critical	Incidents with unconfined and significant environmental impact	Environmental pollution with no rehabilitation methods

Due to improvements in our environmental management system and the modifications made to our environmental incident classification system, we recorded 493 environmental incidents in 2013, approximately 20% lower than 2012.

The environmental incident frequency rate ("**EIFR**") decreased from 0.82 in 2012 to 0.45 in 2013, indicating that our management system is working effectively. However, the number of incidents classified as medium risk increased substantially from 67.5 cases in 2012 to 273 cases in 2013. This increase is due to the more stringent incident definition we began to employ in 2013.

The two incidents that were classified as "high" were in connection to death of a gazelle and a wild donkey on the paved coal haul road after a hit and run. These cases are still under investigation by the local traffic police to identify who and which company's truck was responsible for the incidents.



Based on our internal investigation into the incidents, MMC took the following measures to avoid similar incidents in the future:

- Provided training to its truck drivers on wildlife crossings;
- Conducted a questionnaire survey among local community members and drivers about wildlife spotting;
- Put up road signs warning road users to beware of wildlife crossing;
- Installation of speed bumps at points wildlife are often spotted crossing;
- Permitting our truck drivers to stop for breaks between 04:30 and 06:00 as it has been determined that wildlife crossing patterns were identified during these hours.

Biodiversity and land use

Coal mining involves direct impacts on the surrounding land, flora and fauna throughout the mine lifecycle. Our aim is to minimise and manage those impacts based on our project Biodiversity Action Plan ("**BAP**"). It is a regulatory requirement to have in place active biodiversity and land management plans which are reviewed annually and include a set of budgets for planned land disturbance and rehabilitation.

We have been conducting flora and fauna monitoring since 2011. A comparison of monitoring data from 2012 and 2013 shows no significant change in the number of species observed.

During the year under review, in accordance with our BAP, we have constructed four birdhouses to provide birds of prey with a nesting space since some birds do not build their own nests but instead use the nests of other birds.

Host communities and local governments are now seeking a greater demonstration of effective land stewardship from mining companies. Thus, securing access to land and managing it responsibly are essential components of our commitment to sustainable development and our ability to keep our social license to operate. We want to ensure that in the future, disturbed land becomes available for other uses such as grazing and housing. Our land management plan provides a sound framework for undertaking rehabilitation and other land management programs which involve leveling and contouring, reshaping, adding topsoil and re-vegetating land to restore the land for future use.

We manage approximately 22,710.13 hectares of land, of which about 49.4% is used for mining, 41.1% for mining infrastructure, 3% for plants, and 6.5% for worker accommodations. In line with the leading practices, we aim to rehabilitate land as it comes out of use rather than waiting until all operations have ceased.

In 2013, a 77 km long water pipeline was built from Naimdai valley to transport groundwater to UHG mine. During the year under review, the pipeline trench was reclaimed after construction work.

CASE STUDY: MMC's environmental protection efforts benefit the local community

To combat desertification and sand drifting, as well as to off-set our impact on biodiversity, we have established a wind belt area in Tsogttsetsii soum, Umnugobi aimag. In 2013, we extended the wind belt to a total of 10 hectares, bringing the number of planted trees to 13,000. The survival rate of the planted trees is approximately 95%, which is considered relatively high compared to the average survival rate of 40% to 50% in the Gobi region.

During the annual harvest festival

Local people harvesting vegetables

The wind belt also aims to create more favorable conditions for vegetable growing for local community members by providing wind protection and arable land suitable for growing vegetables in the Gobi climate. In 2013, over 50 households of Tsogttsetsii soum grew vegetables in the 5 hectare strip of land between the wind belts. The Company assisted them by preparing the land and irrigation system and providing training in vegetable growing. During the reporting period, these households harvested 40 tonnes of 10 different types of basic vegetables, including potatoes, carrots, onion, beetroot and cabbage among others, and celebrated the occasion with the Company by organising a harvest festival. This initiative is in line with the Company's efforts to establish a means to an alternative source of sustainable livelihood for the local community which relied solely on income from herding.

Waste management

Our sites operate a comprehensive non-mineral waste management system that includes day-to-day management of all major regulated and industrial waste streams. The system focuses on correct waste handling, storage, sorting and recycling. Construction work has contributed the largest share of solid non-mineral waste at the project site. As most of the construction work on site had been completed in 2013, the total amount of solid waste generated was reduced by 35% compared to 2012.

Table 20. Solid waste recycling

	2010	2011	2012	2013
Solid waste, m^3	6,001	16,040	22,602	**14,520**
Proportion recycled (%)	50	59	70	**71**

At present, mineral waste is dumped outside the mine-pit, which is later rehabilitated by being covered with topsoil and re-vegetated. Hazardous non-mineral waste is delivered back to the supplier for refill or is burned in a special incinerator. Plastic waste, waste metal and waste paper are sent to designated recycling facilities in other provinces in Mongolia.

CASE STUDY: MMC is working towards improving its waste re-use capabilities

In October 2013, the Company established a small scale waste recycling facility on site with an initial investment of MNT96 million. The recycling facility uses materials such as ash, metal scrap and other re-usable scrap materials from the UHG project to produce goods that have economic benefits. For example, the recycling facility has a capacity to produce 600 construction blocks daily from the ash produced by the boiler houses at the UHG project. These blocks can be used in construction activities at the project or sold at a competitive price locally. The ash from power plant at the UHG site is now being used as a binding material instead of cement.

Building blocks and bench made from scrap materials

In addition, scrap metal from the project is used to make garbage bins, metal furnaces, metal fencing, sliding doors, livestock fencing and benches among other reusable goods. These goods are being used around the project site or sold at subsidised prices to Company employees. The recycling facility has a capacity to provide employment for 23 people.

Water

Water is a shared resource, and it is important that we understand the impact of our operations on water extraction and use. We use water in mining, processing, power generation, rehabilitation and for drinking. Yet as water is a finite natural resource, we must use it with utmost efficiency. It is therefore vital for us to manage water in a sustainable manner that supports water re-usage.

We believe in respecting the rights of other water users in our neighboring communities, including herders at our impacted areas. The ecological and economic value of water has led to greater scrutiny of responsible water use and increased expectations from our stakeholders for improved water stewardship. The Company has been supplying filtered water for the local community at a subsidised rate since 2011, and we welcome their participation in our water monitoring activities.

At our operations, water is sourced from groundwater boreholes and is stored in two water reservoirs with a total storage volume of 56,000 m^3, which prevents evaporation. In 2013, a total of 2.29 million m^3 of ground water was extracted and used at the UHG project, 95% of which was used for industrial purposes and 5% for domestic purposes at the workers' camp. We use a combination of both groundwater and recycled water on site. Sewage is treated in a waste water treatment plant and is used for dust control on coal haulage roads.

To date, we have undertaken several major technical projects that are aimed at reducing groundwater use. These include:

- The installation of tailings thickener at our CHPP, which has decreased water content in the tailings by 30%. As a result, we managed to recycle 95% of the water used at the CHPP, allowing us to effectively reduce ground water extraction and consumption of fresh water by 70,000 tonnes per month.

- We have constructed a BFP facility that dewaters the slurry, resulting in an increase of water recycling from 35% to 70%, through avoidance of evaporation losses in the TSF. The belt press facility will be fully operational in 2014.

Water monitoring is carried out regularly to control and prevent project-induced negative impacts on surface water and groundwater. Monitoring of herder wells around the UHG mine, Tsogttsetsii soum centre and coal transportation road are conducted on a monthly basis. There are 10 groundwater boreholes installed in the mine licensed area for groundwater monitoring, which allows us to control contamination of groundwater resulting from our operations. In 2013, monitoring data has shown no changes in water levels and no water contamination.

In May 2013, a solid waste clean-up campaign was organised in the surrounding area of three natural springs and 15 herder wells located within a 30 km radius of the UHG mine site. Company employees also rehabilitated and built a protective ring around a water-well located near Tsogttsetsii soum to prevent inappropriate use that may result in pollution of the water source.

Air quality and noise

Dust and air quality are significant issues for our neighboring communities, and minimising the effects of these impacts from our operations has been and will remain a key focus for us. Dust can be generated during coal mining, bulldozing, excavation, blasting and from vehicles travelling on unpaved roads. The following are some of the key control measures we have taken to reduce the impact of dust generated by our operations:

- The haulage roads at our site are regularly sprayed with treated waste water;
- Our coal stockpile at TKH has been fenced off with a 10-metre high special wire fence that reduces wind speed and dust dispersion;
- We have constructed a 245-km paved road which commenced operation in October 2011 to mitigate excessive dust generation on unpaved roads;
- Better management of vehicle speed;
- Covering of truck loads;
- Establishing a forest belt as a buffer to minimise wind-blown dust.

Air quality monitoring is an integral part of our dust management plan. We monitor PM2.5 and PM10 dust levels at 30 different sites in and around the UHG mine site. Other air emissions such as sulfur dioxide, nitrogen dioxide and carbon monoxide are also regularly measured by the Central Environmental and Metrological Laboratory against national air quality standards (MNS 4585:2007), and carbon monoxide measurements at the UHG power plant are measured against the national air quality standards (MNS 5919:2008).

During the reporting period, 180 times of PM2.5 measurements were conducted against the national MNS 4585:2007 standard in Tsogttsetsii soum, along the coal haulage road and TKH area. The average level of PM2.5 was below the value of national air quality standard of 0.05 mg/m^3 at all measuring points. However, monitoring results can fluctuate depending on weather conditions and wind speeds. To improve the transparency of operations, our dust monitoring report is delivered to the local administration on a monthly basis and is also published on the UHG monthly bulletin for public viewing.

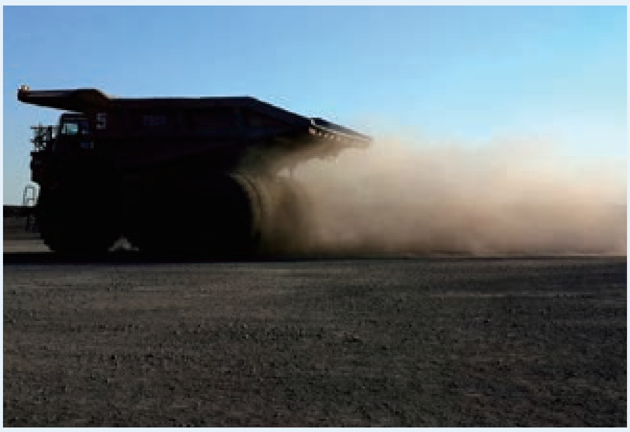
There are a number of sources of noise that are typically associated with our mining operations. They include dump trucks, large earth-moving equipment such as excavators, and processing plants. Blasting activities, which are an essential component of our mine operations, cause ground vibration as well as overpressure, and may on occasion be felt or heard by our closest neighbors. We understand that noise and vibrations can impact the neighboring communities, something we take very seriously. In accordance with our noise management plan, we identify and evaluate sources of noise and vibration and implement measures to mitigate these impacts.

Some of the practical steps we undertake to minimise noise and vibration include:

- Maintaining machinery to ensure it operates as quietly as possible;
- Working with our suppliers to provide machinery that is designed to be quieter;
- Storing and starting equipment as far as possible from residential areas;
- Providing a community hotline service with which residents can report concerns over noise or vibration;
- Blasting only when weather conditions are deemed favorable.

CASE STUDY: The Company has taken further measures to reduce project induced dust

Dust emission is a major environmental issue in open cut coal mining. To control dust, we have improved the haul road in the mine pit using a mixture of red and orange earth material that is extracted during coal mining. Measurements with dust monitoring equipment have shown that dust generated from the road has been reduced threefold at best at a given time following such treatment. As a result, we managed to reduce the amount of treated waste water used in watering the haul road to suppress dust.



Before treatment of mine pit road

After treatment of mine pit road

During the year under review, the Company continued to take appropriate measures to reduce the amount of dust generated in the vicinity of the mine site and the coal haul road in accordance with the Dust Management Plan of the project Environmental Social Management Plan. These measures include:

- Improvement of operational efficiency, which has resulted in a reduction of our coal stockpile;

- Installment of dust suction equipment at CHPP;
- The establishment of a working group to conduct assessment of dust generation at different workplaces of the Company and to offer tailored solutions to reduce dust;
- In order to reduce the coal dust in the air, an integrated ash bunker has been put into operation.

Environmental compliance and monitoring

In 2013, authorities from the State Specialised Agency, Ministry of Environment and Green Development and the local government conducted two environmental legal compliance inspections at the UHG mine site. No cases of non-compliance were identified during these inspections.

We regularly monitor and measure the impact of our activities on the environment at 244 specific points within our project impacted area to ensure that they are within the nationally-accepted levels. Our monitoring activities include biodiversity studies and the monitoring of dust emissions, noise levels, air pollution, soil erosion, groundwater pollution and shallow water pollution. Every year, our environmental monitoring plans are approved by national environmental authorities, and sampling and measurements are performed in compliance with national environmental standards using the latest equipment and measurement devices. Samples are tested at accredited national and international laboratories.

OUR COMMUNITY

We are committed to contributing to the communities in which we operate and to building a mutually beneficial relationship that is based on trust and respect. Proactive engagement with our communities and listening to their concerns and expectations regarding our business throughout the mine lifecycle is the cornerstone of our community approach.

Any positive and negative impacts of our operations on the community are identified through socio-economic baseline studies and impact and risk assessments prior to start of our operations and before any new projects are undertaken. Based on the findings of the assessments, we develop individual plans to mitigate any adverse impacts associated with our activities, and at the same time, initiate programs and investments that support positive impacts to contribute to the sustainable development of the region. Specifically, our community directed management plans include the PCDP, Resettlement Action Plan, Grievance Management Plan, Cultural Heritage Management Plan, Economic and Physical Displacement Management Plan and Community Health and Safety Management Plan.

Through our community investments, we seek to deliver long-term sustainable outcomes for the community in which we operate by empowering local people to develop independently of the Company's continued support when our mining activities cease.

Based on feedback from the relevant stakeholders, we re-evaluate the implementation of our plans and activities through various means of internal and external monitoring and revise our plans as necessary.

CASE STUDY: Creating opportunities through education

Beneficiaries of the project

To enhance access to education for young people and to help close the gap in quality between rural and urban education, MMC has implemented a 3-year project to build the capacity of the local secondary school in Tsogttsetsii soum, Umnugobi aimag. The Company hired "Orchlon" school, a highly sought after secondary school in Mongolia, as education consultant to collaborate on the project, which focuses on improving the school's Mathematics and English as a Second Language ("**ESL**") teaching by introducing new teaching methods and building the teaching capacity of teachers and instructors. As part of the project, DynEd – an award winning ESL learning software, was introduced. Coupled with in-class instructions, the technology based interactive courses and assessment tools enabled students to learn English following a natural sequence of listening, speaking, reading and writing, thereby decreasing the time need to achieve English fluency by 60%. In addition, highly skilled Mathematics and ESL teachers were hired to further support the implementation of the project. Since the initiation of the project in 2010, the students at the school successfully completed the program and were ranked among the top 3 at numerous regional and national Olympiads. Every year, the Umnugobi aimag produces a ranking of its secondary schools based on students' average grades in the final spring examinations. In last year's final exams, the Tsogttsetsii secondary school was ranked first in ESL and second in Mathematics, an achievement for which the stakeholders of the school are proud of. The project came to a close in 2013, and the school administration is now responsible for carrying out the project.

In addition to the two main categories of CI described above, MMC also initiates sponsorships and donations, as well as volunteer activities such as blood donation drives, provision of hay and fodder to herders during winter months and extending our help to underprivileged children and elders.

Highlights of 2013

- Supported the work of translating the Kangyur and Tengyur sutras – an invaluable relic of Mongolia's cultural heritage;
- Organised annual "Naadam" festival for members of the local community and relocated Company employees;
- For the second consecutive year, continued the Company initiative to support local vegetable growers and organised a harvest festival;

- Conducted our annual "For a Better Future" scholarship program;
- Organised our annual public consultation and information disclosure event in Tsogttsetsii soum, Umnugobi aimag;
- Sponsored a local camel racing competition in Umnugobi aimag;
- Completed the three-year project to build the capacity and teaching of the local secondary school of Tsogttsetsii soum, in partnership with Orchlon School.

CASE STUDY: MMC sponsors a camel racing competition in Umnugobi aimag

MMC is firmly committed to preserving both tangible and intangible elements of the cultural heritage of the community in which it operates. Within the scope of this commitment, for the second consecutive year, the Company sponsored a camel racing competition in Khanbogd soum, Umnugobi aimag in March 2013. By sponsoring this event, the Company aimed to promote and protect the traditional way of life in the Gobi region, which is inextricably linked to camel husbandry. Moreover, it serves to spur interest in nomadic culture among the younger generation, further increase the number of camels in the region and to pass on know-how in breeding camels to young herders.

Community Engagement

Our mining operations have significant economic, social and environmental impacts on local communities. In turn, the communities' concerns, needs, aspirations and activities impact our business in a multitude of ways. Thus, fostering robust relationships and building trust with local community members, local governments and other stakeholders are pivotal in sustaining a successful business operation. Since its inception, MMC has strived to develop effective ways to engage with its local stakeholders. Consultation and engagement with communities occur in many formats, including:

- Community surveys (socio-economic baseline studies, satisfaction surveys);
- Community site tours;
- Community development programs;
- Dedicated community engagement staff maintaining regular contact with affected herder households and resettled families;
- Regular meetings with local administration;
- Initiating monthly meetings with Community Development Advisory Councils established in each impacted soum to provide a better platform for dialogue between the Company and the local community;
- Annual public consultation and disclosure activities (Open ger events);
- Operation of information centers and hotlines;

- Publication of monthly environmental monitoring data on our monthly bulletin;
- Annual reports;
- News bulletins.

Our community engagement practice has been identified as one of our strongest assets in the UHG project, and has been highlighted in numerous external monitoring and evaluations performed by international experts. MMC continues to develop community programs that are effective and fit-for-purpose, and our stakeholder engagement plan is reviewed and updated as needed to respond to evolving local conditions and operational issues.

CASE STUDY: MMC engages with local stakeholders

In accordance with the UHG project's PCDP, the Company organised its annual public consultation and information disclosure event for local community members in August 2013. The purpose of this event is to provide factual and reliable information to the local community about the Company's operations and future plans, and to engage in face-to-face interaction with project affected community to understand their concerns and expectations. Essentially, it allows MMC to reflect recommendations and suggestions received from the community into the project impact management plans, which in turn allow us to better manage social and environmental impacts that could potentially risk our social licence to operate.

Company personnel organising consultation meetings with local community

Local community members expressing their views and opinions

A total of over 600 local community members from impacted soums took part in the consultation event. The consultation was held in the form of focus group discussions to ensure better participation of community members. During the focus group discussions, the community members expressed their opinions and inquired about environmental issues, community health and safety, company recruitment and company procurement procedures, among others. During the event, we conducted a community satisfaction survey in connection to the Company's operations. Specifically, the survey focused on determining public satisfaction with the Company's information disclosure activities, grievance handling and whether or not community members were given the opportunity to freely express their views during the consultation event.

Grievance Management

Our operations are required to adopt local processes to accept, assess and resolve community concerns, complaints and grievances about the performance or behavior of MMC and our people. The processes are aimed to be transparent, culturally appropriate and readily accessible to all segments of the community. As part of the resolution process, all complaints and grievances are required to be acknowledged, documented and investigated internally. Appropriate actions are implemented as required, and complainants are advised of the outcome.

We receive grievances via internet, by telephone, through face-to-face interviews and in writing. The grievances are processed and reported semi-annually to the Company management and to the public on their resolution. In line with our grievance handling mechanism, we aim to respond to all complaints within 30 days of submission, and more quickly in urgent cases. Where requested and appropriate, the Company treats complaints in a confidential manner, and in all cases, grievances are addressed without prejudice. In 2013, a total of 16 complaints and 23 requests were received and handled. Out of the 16 complaints received, 14 were in connection to livestock deaths on the coal haul road, and the remaining two were in connection to a sub-contractor of the Company's contractor on the "Tsetsii Town" project not paying the wages of its temporary staff. Our response actions included but were not limited to informing the relevant law enforcement authorities about the livestock accidents and collaborating with them to investigate the incidents to determine which company truck was responsible. In the cases the Company's trucks were found to be responsible for accidents involving livestock, we took the appropriate measures to compensate the owners of the livestock killed and provided further road safety training and instructions for our drivers.

Of the 23 requests received via our grievance mechanism, more than 47% were requests for monetary donations, 13% were requests to establish water wells, and the remaining were various requests mainly in connection to the Company's procurement, tuition fee support, internship opportunities, requests to use the Company's sports facilities and information provision.

CASE STUDY: The Company supports the translation of the "Kangyur" and "Tengyur" sutras

As a socially responsible company, MMC has given support to the initiative by an NGO, the Kalachakra Culture Center, to translate the esteemed Kangyur and Tengyur sutras – sacred canonical texts of the Buddha's teachings and discourses – into Cyrillic. As over 80% of Mongolians are Buddhists, these texts unquestionably rank among the most important sources for the study of Buddhism. The canon thus provides the basis for understanding the nature and history of both Indian Buddhism and Tibetan Buddhism, including exoteric and esoteric philosophy and rituals, ethics, literature, social practice, institutional history, narrative history, and other areas.

Both these texts were registered for the United Nations Educational, Scientific and Cultural Organisation's Memory of the World, documentary cultural heritage list, and are also certified as "Outstanding cultural heritage" in Mongolia. By collaborating on this project, the Company intends to make a valuable contribution to preserving this important piece of cultural heritage.

The first volumes of the Kangyur and tengyur sutras

Community Investment

Our community investments are based on the principle of "shared value", an outcome that benefits both the Company and the community through strategic community investment ("**CI**"). CI in MMC refers to how the financial resources we invest make positive contributions to the sustainable development of the local communities in which we operate.

Our contributions range from improving the local infrastructure, enabling access to education, and developing a local workforce to building the capacities of local small and medium sized enterprises. Our CIs are made via our procurement and employment policies and through the implementation of standalone programs such as community health support programs in partnership with local governments, NGOs and other stakeholders. The Company gains from these activities in a number of ways, including access to a capable workforce, reliable supply chains and improved relationships with host communities. In 2013, the Company spent approximately MNT12.2 billion on community investment activities.

Table 21. Community investment in 2013

	Community investments	2013 MNT
1.	Local infrastructure development	7,850,694,256
2.	Community development programs	2,601,349,056
3.	Grants & Sponsorships	2,990,980
4.	Local procurement (Umnugobi aimag)	1,748,300,000
TOTAL		**12,203,334,292**

- ***Community infrastructure investments***

Prior to the commencement of the UHG project, Tsogttsetsii soum, an administrative unit of Umnugobi aimag, where our operations are based, used to be a sparsely populated region with a harsh, dry climate and limited access to basic infrastructure.

Since our operations began in Tsogttsetsii soum in 2009, we carried out several major local infrastructure development projects. These include:

- Construction of the Tsogttsetsii soum inter-road;
- Provision of an uninterrupted supply of filtered water and electricity at subsidised rates;
- Construction of the "Muruudul" school, kindergarten and dormitory complex, a joint investment between the Company and Umnugobi aimag administration;
- Establishment of "Tsetsii Town", a residential township project in Tsogttsetsii soum, to cater to the demand for modern housing from our employees and members of the local community.

When investing in community infrastructure, we make it a priority to align our business objectives with those of the community. For example, construction of the "Muruudul" educational complex supports the Company's objective in implementing its Staff Relocation Policy, through which our employees are encouraged to relocate to our area of operations with their families knowing that a quality education can be afforded to their children. The local community in Tsogttsetsii also benefits from being allowed to send their children to an all modern school that offers an education of a quality that is as good as in the national capital of Ulaanbaatar.

- ***Community development programs***

We support and implement a wide range of projects and partnerships to build stronger and more sustainable communities. Based on the needs of the community as identified through regional plans, consultation and our socio-economic baseline studies, we design and prioritise our community development programs. Our aim is to support or implement projects that support the overall sustainable development of the local community.

We undertake various community development programs that focus on job creation, improving access to health and education, promoting local business development, and preserving cultural heritage.

Through our Cultural Heritage Preservation Program, MMC is firmly committed to the protection and preservation of the both tangible and intangible forms of Mongolia's cultural heritage. Prior to the commencement of our operations, we conducted archaeological surveys to uncover any valuable artifacts that may be ruined during the mining process. Moreover, we regularly implement various initiatives that seek to preserve intangible assets of the local community's cultural heritage.

CASE STUDY: MMC organises a local "Naadam" festival

The annual "Naadam" festival, one of the most important cultural events in Mongolia, is celebrated nationwide and attracts tourists from all over the world. Rooted in the nomadic wedding ceremonies and hunting escapades, the annual celebration includes activities such as horse racing, archery, traditional Mongolian wrestling and traditional dance and music performances. Mongolians wear their traditional national costume, the 'deel', during the Naadam festival. To support the continuation of this important cultural event, the Company hosted a regional 'mini-Naadam' festival for the local community and its relocated employees at Tsogttsetsii soum, Umnugobi aimag. In 2013, the 'mini-Naadam' was held on 9 August, with 64 wrestlers, 86 archers and over 168 horsemen competing in traditional games to make the festivities more interesting. The Company's Naadam festival has been gaining popularity among local community members every year, and has become one of the most anticipated cultural events of the year.

Traditional wrestling and national costume competitions at the UHG Naadam

SOCIO-ECONOMIC CONTRIBUTION

Maintaining its position as one of the leading mining companies in Mongolia, MMC remains committed to contributing to the social and economic development of its host communities as well as the country as a whole. In addition to being one of the major employers and tax contributors in Mongolia, we work in close cooperation with the local communities so that our presence brings tangible benefits to the prospects and well-being of the local people.

Job creation

Despite the challenging market and economic conditions, we continued with our efforts to retain our employees and hired and trained local people where possible during the reporting period. As at the year ended 2013, MMC employed 2,272 employees, 43% of whom were locally hired.

Tax contribution

MMC paid approximately MNT54.5 billion in taxes and fees to the state budget in 2013, a significant amount given the size of the country's economy. According to statistics from the Ministry of Finance, the Company ranked the sixth among the top taxpayers in Mongolia.

Infrastructure development

In addition to our wider economic contribution, we established the following facilities during the reporting period in support of local infrastructure and sustainable development:

- "Tsetsii Town", a residential township project financed by the Company, was expanded by more than 260 new apartment units in 2013, all of which were allocated to MMC employees as part of the Employee Relocation Policy in effect since 2011. Collectively, the residential town now holds a total of 12 apartment blocks and provides comfortable, all-modern living conditions for both Company employees who resettled in Tsogttsetsii soum and local residents;

- Waste-dewatering technology was introduced at the CHPP in an effort to continue to integrate international best practices to our operations and to minimise the environmental impacts of our operations. Being the first of its kind in Mongolian coal industry, the water-efficient facility also optimises the potential to run long-term industrial activities in the arid Gobi region.

Local procurement

As part of our sustainable development efforts, we aim to provide a strong base for the economic growth of the region in which we operate and cooperate with potential contractors in diverse ways. We follow ethical business practices in our purchase and supply management and give priority to local businesses where possible. During the reporting period, MMC purchased products and services worth approximately MNT690 billion from approximately 656 suppliers and contractors and continued to cooperate with more than 560 local businesses in Mongolia. In addition to providing potential domestic contractors fair and equal access to business opportunities, MMC supports businesses in the host community through its local Small and Medium Enterprise Development Program, which in turn enables them to become reliable suppliers of the Company. During the reporting period, MMC purchased approximately MNT1.7 billion worth of goods and services from local Umnugobi aimag businesses.

COMPANY AWARDS AND ACCOLADES

During the reporting period, MMC received the following awards from various professional bodies and government agencies of Mongolia for its sustainable operations and its sizable contribution to the country's socio-economic development:

Entrepreneur 2013

MMC was selected as one of the country's top 10 enterprises for the fifth consecutive year in the Entrepreneur 2013 awards, organised by the Mongolian National Chamber of Commerce and Industry. The prestigious annual award recognises leading national companies that make sizeable contributions to the country's economic development. Recipients are selected from more than 300 national enterprises on the basis of their level of tax contribution to the state budget, community investment and technological advancements.

Global CSR Award

MMC won the Silver "Best Workplace Practice Award" at the Global CSR Summit and Awards 2013, which has attracted entries from more than 500 leading corporations across Asia and the rest of the world. In the previous year, the Company was selected as a finalist for the "Best Community Program Award".

Top Coal Producer of the Year

MMC was named the Top Coal Producer of the Year at the 3rd annual Coal Mongolia international conference in Ulaanbaatar, Mongolia in February 2013. The reputable event attracted around 1,500 guests and delegates from more than 20 countries.

Best Practice Awards for Employee Engagement in the Mining Industry

MMC was recognised for its outstanding achievements in employees' social well-being and HR practices at the first "Best Practice Awards for Employee Engagement in the Mining Industry" hosted by the Mongolian Ministry of Mining and Mineral Resources Authority of Mongolia in July 2013.

Water Stewardship Award 2013

The Company's water management activities at its UHG mine operation, which includes belt-press dewatering technologies, received the Water Stewardship Award from the National Water Management Committee of the GoM and Mongolian Water Partnership NGO.

Corporate Governance Report

The Board of the Company is pleased to present this Corporate Governance Report in the annual report for the year ended 31 December 2013.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to achieving high corporate governance standards. The Board believes that high corporate governance standards are essential in providing a framework for the Company to safeguard the interests of shareholders and to enhance corporate value and accountability.

The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 of the Listing Rules.

In the opinion of the Directors, throughout the year under review, the Company has complied with all the code provisions as set out in the CG Code, save and except for code provision E.1.2 which states that the Chairman of the Board should attend the annual general meeting ("**AGM**") of the Company. The related details are set out under "Communication with Shareholders and Investor Relations" below.

The Company will continue to review and enhance its corporate governance practices to ensure that these continue to meet the requirements of the CG Code and the rising expectation of the Shareholders and investors.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2013.

The Company has also established written guidelines on no less exacting terms than the Model Code (the "**Employees Written Guidelines**") for securities transactions by employees who are likely to possess inside information of the Company. No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

BOARD OF DIRECTORS

The Board currently comprises nine members, including two executive Directors, four non-executive Directors and three independent non-executive Directors.

EXECUTIVE DIRECTORS:
Mr. Odjargal Jambaljamts, *Chairman of the Board, Chairman of the Nomination Committee and member of the Remuneration Committee*
Dr. Battsengel Gotov, *Chief Executive Officer*

NON-EXECUTIVE DIRECTORS:
Dr. Oyungerel Janchiv
Mr. Batsaikhan Purev
Mr. Od Jambaljamts, *member of the Corporate Governance Committee*
Ms. Enkhtuvshin Gombo, *member of the Audit Committee*

INDEPENDENT NON-EXECUTIVE DIRECTORS:
Mr. Ochirbat Punsalmaa, *Chairman of the Remuneration Committee and member of the Audit Committee and the Nomination Committee*
Mr. Unenbat Jigjid, *Chairman of the Corporate Governance Committee and member of the Audit Committee, the Nomination Committee and the Remuneration Committee*
Mr. Chan Tze Ching, Ignatius, *Chairman of the Audit Committee and member of the Corporate Governance Committee*

The relationship between the members of the Board and the biographical information of the Directors are set out in the section headed "Directors and Senior Management" on pages 6 to 12 of the annual report for the year ended 31 December 2013.

Chairman and Chief Executive Officer

The positions of Chairman and Chief Executive Officer are held by Mr. Odjargal Jambaljamts and Dr. Battsengel Gotov respectively. The Chairman provides leadership and is responsible for the effective functioning and leadership of the Board. The Chief Executive Officer focuses on the Company's business development and daily management and operations generally. Their respective responsibilities are clearly defined and set out in writing.

Independent Non-Executive Directors

During the year ended 31 December 2013, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors which represented one-third of the Board with one of them possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors are independent.

Non-Executive Directors and Directors' Re-election

Code provision A.4.1 of the CG Code stipulates that non-executive Directors shall be appointed for a specific term, subject to re-election, whereas code provision A.4.2 states that all directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment and that every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

Each of the non-executive Directors and independent non-executive Directors is appointed for a specific term of two years and is subject to retirement by rotation once every three years.

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board is responsible for the overall management of the Company's business. The Board provides leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. All Directors make decisions objectively in the interests of the Company.

The Board reserves for its decision all major matters of the Company, including the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve a conflict of interest), financial information, appointment of directors and other significant financial and operational matters.

The day-to-day management, administration and operation of the Company are delegated to the Chief Executive Officer and the senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers.

All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

All Directors have full and timely access to all relevant information of the Company. The Directors may seek independent professional advice under appropriate circumstances at the Company's expense, upon making request to the Board, for discharging their duties to the Company.

The Directors shall disclose to the Company details of other offices held by them and the Board regularly reviews the contribution required from each director to perform his responsibilities to the Company.

Continuous Professional Development of Directors

The existing Directors are continually kept up-to-date with the legal and regulatory developments, and business and market changes to facilitate the discharge of their responsibilities.

Newly appointed Director will receive formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of director's responsibilities and obligations under the Listing Rules and relevant statutory requirements. Such induction shall be supplemented by visits to the Company's key plant sites and meetings with senior management of the Company.

Directors are encouraged to participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Internally-facilitated briefings for Directors will be arranged and reading material on relevant topics will be issued to Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses.

During the year ended 31 December 2013, the Company organised two training sessions conducted by qualified professionals for the Directors on Inside Information and Restrictions on Dealings in Listed Issuer's Securities and on Directors' Duties and Corporate Governance. Directors namely Mr. Odjargal Jambaljamts, Dr. Battsengel Gotov, Dr. Oyungerel Janchiv, Mr. Batsaikhan Purev, Mr. Od Jambaljamts, Ms. Enkhtuvshin Gombo, Mr. Ochirbat Punsalmaa and Mr. Unenbat Jigjid attended the training sessions. Mr. Chan Tze Ching, Ignatius, independent non-executive Director, also attended various training sessions including the Asian Financial Forum, the Independent Non-Executive Directors Forum, Asia: Growth Engine of the Global Economy, Board IT Governance and Risk Management Program: Breaking The Technology Code, Corporate Governance and Regulatory Updates and Mandatory Accreditation Programme for Directors of Public Listed Companies conducted by qualified professionals.

In addition, relevant reading materials including legal and regulatory update and seminar handouts have been provided to the Directors for their reference and studying.

BOARD COMMITTEES

The Board has established four committees, namely, the Audit Committee, Remuneration Committee, Nomination Committee and Corporate Governance Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the Company's website and the Stock Exchange's website and are available to shareholders upon request.

Audit Committee

The Audit Committee comprises four members which includes one independent non-executive Director who possesses the appropriate professional qualifications or accounting or related financial management expertise. There are three independent non-executive Directors, namely Mr. Chan Tze Ching, Ignatius (chairman), Mr. Ochirbat Punsalmaa and Mr. Unenbat Jigjid, and one non-executive Director, namely Ms. Enkhtuvshin Gombo in the Committee.

The principal duties of the Audit Committee include the following:

- To review the financial statements and reports and to consider any significant or unusual items raised by the staff responsible for the accounting and financial reporting function, the internal auditor or the external auditor before submission to the Board;

- To review the relationship with the external auditor by reference to the work performed by the auditor, their fees and terms of engagement, and to make recommendations to the Board on the appointment, reappointment and removal of the external auditor;

- To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures; and

- To review arrangements to enable employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

The Audit Committee held two meetings during the year ended 31 December 2013 to review interim and annual financial results and reports in respect of the year ended 31 December 2013 and significant issues on the financial reporting and compliance procedures, internal control and risk management systems, scope of work and appointment of external auditors, CCTs and arrangements for employees to raise concerns about possible improprieties.

The Audit Committee also met the external auditors twice without the presence of the executive Directors.

Remuneration Committee

The Remuneration Committee comprises three members, with a majority of independent non-executive Directors. The members are Mr. Ochirbat Punsalmaa (chairman) and Mr. Unenbat Jigjid, being independent non-executive Directors, and Mr. Odjargal Jambaljamts, executive Director.

The primary functions of the Remuneration Committee include determining the remuneration packages of individual executive Directors and senior management, making recommendation on the remuneration policy and structure for all Directors and senior management, and establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration.

The Remuneration Committee held two meetings during the year ended 31 December 2013 to review and determine the remuneration packages of the executive Directors and senior management and make recommendations to the Board on the overall remuneration policy and structure of the Company. Where appropriate, decisions were also taken by way of circulated resolutions.

Nomination Committee

The Nomination Committee comprises three members, with a majority of independent non-executive Directors. The members are Mr. Odjargal Jambaljamts (chairman), executive Director, and Mr. Ochirbat Punsalmaa and Mr. Unenbat Jigjid, independent non-executive Directors.

The principal duties of the Nomination Committee include the following:

- To review the structure, size and composition of the Board and to make recommendations regarding any proposed changes;
- To develop and formulate relevant procedures for nomination and appointment of directors;
- To identify suitable candidates for appointment as Directors;
- To make recommendations to the Board on appointment or re-appointment of and the succession planning of Directors; and
- To assess the independence of independent non-executive Directors.

In assessing the Board composition, the Nomination Committee would take into account various aspects set out in the Board diversity policy, including but not limited to skills, industry experience, background, race, gender and other qualities. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's character, qualifications, experience, independence and other relevant criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board.

The Nomination Committee held two meetings during the year ended 31 December 2013 to review the structure, size and composition of the Board and the independence of the independent non-executive Directors, to consider the qualifications of the retiring directors standing for election at the AGM, and to consider and recommend to the Board on the appointment of the Chief Financial Officer of the Group. Where appropriate, decisions were also taken by way of circulated resolutions. The Nomination Committee considered that an appropriate balance of diversity perspectives of the Board is maintained.

Corporate Governance Committee

The Corporate Governance Committee comprises three members with a majority of independent non-executive Directors. The members are Mr. Unenbat Jigjid (chairman) and Mr. Chan Tze Ching, Ignatius, being independent non-executive Directors, and Mr. Od Jambaljamts, executive Director.

The Corporate Governance Committee was established by the Board for performing the functions set out in the code provision D.3.1 of the CG Code. The principal duties of the Corporate Governance Committee include the following:

- To develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;

- To review and monitor the training and continuous professional development of Directors and senior management;

- To review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

- To develop, review and monitor the Code and compliance manual (if any) applicable to employees and Directors; and

- To review the Company's compliance with the code and disclosure in the Corporate Governance Report.

The Corporate Governance Committee held two meetings during the year ended 31 December 2013 to review the Company's corporate governance policies and practices on compliance with legal and regulatory requirements, continuous professional development of directors and senior management, compliance of the Model Code, the Employees' Written Guidelines and the CG Code, and disclosure in the Corporate Governance Report.

ATTENDANCE RECORD OF DIRECTORS AND COMMITTEE MEMBERS

The attendance record of each Director at the Board and Board Committee meetings and the general meetings of the Company held during the year ended 31 December 2013 is set out in Table 22 below:

Table 22. Attendance records:

	Attendance/Number of Meetings						
Name of Director	Board	Nomination Committee	Remuneration Committee	Audit Committee	Corporate Governance Committee	Annual General Meeting	Extraordinary General Meeting
Odjargal Jambaljamts	5/5	2/2	2/2	N/A	N/A	0/1	1/1
Battsengel Gotov	5/5	N/A	N/A	N/A	N/A	0/1	1/1
Oyungerel Janchiv	4/5	N/A	N/A	N/A	N/A	0/1	0/1
Batsaikhan Purev	5/5	N/A	N/A	N/A	N/A	1/1	0/1
Od Jambaljamts	5/5	N/A	N/A	N/A	2/2	0/1	0/1
Enkhtuvshin Gombo	5/5	N/A	N/A	2/2	N/A	0/1	0/1
Ochirbat Punsalmaa	4/5	2/2	2/2	2/2	N/A	0/1	0/1
Unenbat Jigjid	5/5	2/2	2/2	2/2	2/2	0/1	0/1
Chan Tze Ching, Ignatius	5/5	N/A	N/A	2/2	2/2	1/1	1/1

Apart from regular Board meetings, the Chairman also held meetings with the non-executive Directors (including independent non-executive Directors) without the presence of executive Directors during the year.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2013.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 127 to 128.

AUDITOR'S REMUNERATION

The remuneration paid to the external auditor of the Company in respect of audit services and non-audit services for the year ended 31 December 2013 amounted to USD535,500 and USD398,733 respectively.

An analysis of the remuneration paid to the external auditor of the Company, KPMG, in respect of audit services and non-audit services for the year ended 31 December 2013 is set out below:

Service Category	Fees Paid/Payable
Audit Services	USD535,500
Non-audit Services	USD398,733
	USD934,233

INTERNAL CONTROLS

During the year under review, the Board conducted a review of the effectiveness of the internal control system of the Company, including financial, operational and compliance controls, risk management functions, the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.

COMPANY SECRETARY

Ms. Ng Sin Yee, Clare of Tricor Services Limited, external service provider, has been engaged by the Company as its Company Secretary. Her primary contact persons in the Company are Dr. Battsengel Gotov, executive Director and Chief Executive Officer and Ms. Uurtsaikh Dorjgotov, Executive Vice President and Chief Legal Counsel of the Company.

During the year ended 31 December 2013, Ms. Ng has complied with the professional training requirement of taking no less than 15 hours of relevant professional training as set out in Rule 3.29 of the Listing Rules.

SHAREHOLDERS' RIGHTS

To safeguard shareholder interests and rights, separate resolution is proposed for each substantially separate issue at shareholder meetings, including the election of individual directors. All resolutions put forward at shareholder meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each shareholder meeting.

Convening an Extraordinary General Meeting by Shareholders

Pursuant to Article 58 of the Articles of Association of the Company (the "**Articles**"), any one or more members of the Company holding on the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. If within 21 days of such deposit the Board does not to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) shall be reimbursed to the requisitionist(s) by the Company.

Putting Forward Proposals at General Meetings

Pursuant to Article 85 of the Articles, any member duly qualified to attend and vote at a general meeting who wish to propose a person other than a retiring director at the meeting for election as Director of the Company may lodge a Notice signed by the member (other than the person to be proposed) of his intention to propose such person for election and also a Notice signed by the person to be proposed of his willingness to be elected at the Company's head office at 16th Floor, Central Tower, Sukhbaatar District, Ulaanbaatar 14200, Mongolia or at the Registration Office at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, provided that the minimum length of the period, during which such Notice(s) are given, shall be at least 7 days, and that (if the Notices are submitted after the despatch of the notice of the general meeting appointed for such election) the period for lodgment of such Notice(s) shall commence on the day after the despatch of the notice of the general meeting appointed for such election and end no later than 7 days prior to the date of such general meeting.

Shareholders who wish to put forward other proposals at general meetings may follow the procedures set out in the previous paragraph to request the Company to convene an extraordinary general meeting for business specified in the written requisition.

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board of the Company, shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

Contact Details

Shareholders may send their enquiries or requests as mentioned above to the following:

Address: 16th Floor, Central Tower
Sukhbaatar District
Ulaanbaatar 14200
Mongolia
(For the attention of the Board of Directors/Chief Investor Relations Officer)

Email: contact@mmc.mn

For the avoidance of doubt, shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address apart from other specified address, if any, and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with shareholders and in particular, through AGMs and other general meetings. All members of the Board including non-executive Directors, independent non-executive Directors, and the chairmen of all Board committees (or their delegates) will make themselves available at the AGMs to meet shareholders and answer their enquiries.

According to CG Code Provision E.1.2, the chairman of the board should attend the AGM. Mr. Odjargal Jambaljamts, Chairman of the Board was unable to attend the 2013 AGM held on 13 May 2013 due to a business engagement. He will use his best endeavours to attend all future shareholders' meetings of the Company.

During the year under review, the Company has not made any changes to its Articles. An up to date version of the Company's Articles is also available on the Company's website and the Stock Exchange's website.

The Directors submit herewith their annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2013.

PRINCIPAL PLACE OF BUSINESS

The Company is incorporated in the Cayman Islands with its registered office at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands, its headquarters and principal place of business in Mongolia at 16th Floor, Central Tower, Sukhbaatar District, Ulaanbaatar 14200, Mongolia, and its principal place of business in Hong Kong at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

PRINCIPAL ACTIVITIES

The principal activities of the Company are mining, production, transportation and sale of coking coal products. The principal activities and other particulars of the subsidiaries and associates are set out in note 18 and note 19 to the consolidated financial statements.

The analysis of the principal activities and geographical locations of the operations of the Group during the financial year are set out in note 13 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is set out in Table 23.

Table 23. Sales and purchases attributable to the major customers and suppliers

	Percentage of the Group's total	
	Sales	Purchases
The largest customer	43.77%	
Five largest customers in aggregate	91.29%	
The largest supplier		36.51%
Five largest suppliers in aggregate		67.80%

Dr. Oyungerel Janchiv, Director of the Company, holds interests in NIC LLC which is one of the five largest suppliers disclosed above. Each of MCS Mining Group Limited, the controlling shareholder of the Company and Mr. Odjargal Jambaljamts and Mr. Od Jambaljamts, Directors of the Company, has interests in each of MCS International LLC and Uniservice Solutions LLC which is one of the five largest suppliers disclosed above.

Save as disclosed above, to the best knowledge of the Directors, none of the Directors nor any of their associates nor any shareholder who holds more than 5% of the Shares has any interests in the customers or suppliers disclosed above.

FINANCIAL STATEMENTS

The results of the Group for the year ended 31 December 2013 and the state of the Group's affairs as at that date are set out in the consolidated financial statements on pages 129 to 204.

TRANSFER TO RESERVES

Loss attributable to shareholders, before dividend, of USD58,073,000 (2012: loss of USD2,542,000) have been transferred to reserves. Other movements in reserves are set out in the consolidated statement of changes in equity on page 133.

DIVIDEND

No dividend has been declared and paid by the Group during the year ended 31 December 2013. The Board does not recommend the payment of a dividend for the year ended 31 December 2013 (dividend for the year ended 31 December 2012: nil).

CHARITABLE DONATIONS

Charitable donations made by the Group during the year ended 31 December 2013 amounted to USD2,000 (2012: USD133,000).

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment for approximately USD145,204,000. Details of these acquisitions and other movements in the property, plant and equipment of the Group are set out in note 14 to the consolidated financial statements.

CONVERTIBLE NOTES

According to the Share Purchase Agreement, the Company issued the Convertible Bond to QGX Holdings Ltd. on 1 June 2011 for payment of some portion of the total consideration of USD464,465,000. On 27 November 2012, the Company and its subsidiary Mongolian Coal Corporation Limited entered into an amendment agreement with KMM and Quincunx (BVI) Ltd pursuant to which the parties thereto have agreed to extend the maturity date of the Convertible Bond until 1 March 2013. Later on 19 February 2013, the Company and QGX Holdings Ltd. also entered into an amendment agreement pursuant to which they agreed to extend the maturity date of the Convertible Bond until 22 April 2013 and change the interest rate to 4.0% as mentioned below.

The principal terms of the Convertible Bond are as follows:

Principal amount:	USD85,000,000
Maturity:	22 April 2013
Interest:	For the period until 28 February 2013 – 2.0% per annum payable semi-annually. If the Group's consolidated leverage ratio exceeds 5.5:1, the interest rate of the Convertible Bond will increase to 4.0% per annum For the period from 1 March 2013 until and including the Maturity Date – 4.0% per annum
Transferability:	A holder of the Convertible Bond may assign or transfer the Convertible Bond in its name without consent from the Company, to (a) any of its wholly-owned subsidiaries, (b) any other entity in respect of which the relative beneficial ownership of KMM and MCS Minerals LLC is substantially the same as their respective beneficial ownership of the holder of the Convertible Bond immediately prior to such assignment or transfer and (c) in the event the holder of the Convertible Bond becomes a wholly owned subsidiary of KMM, any of its Affiliates (as defined in the announcement of the Company dated 1 June 2011) or any member of the Kuok Group (as defined in the announcement of the Company dated 1 June 2011), provided that an assignment or transfer of the Convertible Bond shall be limited to assignments or transfers in wholly only, and not in part
Conversion right:	The Convertible Bond will only be convertible at maturity at the election of the holder of the Convertible Bond
Conversion price:	HKD10.92 per Conversion Share (as defined in the announcement of the Company dated 1 June 2011)
Redemption and purchase:	Unless converted, the Company will redeem all the Convertible Bond at the principal amount on maturity
Ranking of Conversion Shares:	Conversion Shares (as defined in the announcement of the Company dated 1 June 2011) will rank pari passu in all respect with the Shares in issue on the relevant date of registration of holders of such Shares on the register of members of the Company
Voting rights:	The holder of the Convertible Bond will not be entitled to vote at any general meeting of the Company by reason only of it being the holder of the Convertible Bond

The Company has fully repaid the Convertible Bond on 22 April 2013.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 32 to the consolidated financial statements.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2013 are set out in note 25 to the consolidated financial statements. The borrowing amount totals USD291.9 million and all of it is in USD. The borrowing of USD40 million is at fixed rate and the remaining borrowings are at variable rate (with a fixed margin over LIBOR).

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 205.

DIRECTORS

The Directors during the financial year and up to the date of this annual report are:

Executive Directors

Mr. Odjargal Jambaljamts (Chairman of the Board)
Dr. Battsengel Gotov (Chief Executive Officer)

Non-executive Directors

Dr. Oyungerel Janchiv
Mr. Batsaikhan Purev
Mr. Od Jambaljamts
Ms. Enkhtuvshin Gombo

Independent non-executive Directors

Mr. Ochirbat Punsalmaa
Mr. Unenbat Jigjid
Mr. Chan Tze Ching, Ignatius

In accordance with Article 84(1) of the Articles, Mr. Batsaikhan Purev, being a non-executive Director, and Mr. Ochirbat Punsalmaa and Mr. Unenbat Jigjid, being independent non-executive Directors, will retire from directorship at the forthcoming AGM and, being eligible, offer themselves for re-election. Biographical details of the Directors are set out in the section headed "Directors and Senior Management" on pages 6 to 12.

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive Directors to be independent in accordance with the guidelines set out under the Listing Rules.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service agreement with the Company for an initial fixed period of three years commencing from the Listing Date. Further, the Board resolved to renew the service agreements effective from 12 October 2013 for a fixed term of three years.

Each of the non-executive Directors and independent non-executive Directors (except Mr. Od Jambaljamts) is engaged on a letter of appointment with the Company for a term of two years commencing from 13 October 2010, the Listing Date. The Board resolved to extend the appointment of each of the non-executive Directors and independent non-executive Directors (except Mr. Od Jambaljamts) for their respective positions and issued a new letter of appointment to each of them all effective from 12 October 2012 for a term of two years. Mr. Od Jambaljamts, a non-executive Director, is engaged on a letter of appointment with the Company for a term of two years commencing from 4 July 2012.

None of the Directors proposed for re-election at the forthcoming AGM has entered into any service agreement with the Company which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN CONTRACTS

Saved as disclosed under the section headed "Connected transactions and continuing connected transactions" in this directors' report and "Material Related Party Transactions" in note 35 to the consolidated financial statements, no contract of significance, to which the Company or its subsidiary or its shareholder was a party and in which a Director had a material interest, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

Other than the service contracts of the Directors, the Company has not entered into any contract with any individual, firm or body corporate to manage or administer the whole or any substantial part of any business of the Company during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors or their associates had any interest in a business that competes or may compete with the business of the Group.

NON-COMPETITION UNDERTAKING

Pursuant to a deed of non-competition dated 20 September 2010, and as amended on 3 April 2012 and 4 July 2012 (the "**Deed of Non-competition**") executed by Mr. Odjargal Jambaljamts, Mr. Od Jambaljamts, MCS Mining Group Limited and MCS (Mongolia) Limited (collectively the "**Undertakers**") in favour of the Company (for itself and on behalf of the Group), the Undertakers undertake, among other things, that at any time when the shares of the Company are listed on the SEHK and for so long as the Undertakers and its associates together hold, whether individually or taken together, 30% or more of the issued share capital or are otherwise regarded as a controlling shareholder of the Company under the Listing Rules, the Undertakers will not, and will procure that its associates (excluding the Group) will not, directly or indirectly, either on its own account or with each other or in conjunction with or on behalf of any person, firm or company, except through a member of the Group, among other things, carry on, participate or be interested or engaged in, acquire or hold (in each case whether as a shareholder, partner, agent, employee or otherwise) any business (except for their aggregate 10% interest in Quincunx (BVI) Ltd) which is or may be in competition with the Restricted Mining Business (as defined in the prospectus of the Company dated 28 September 2010) of any member of the Group from time to time. In the event that a business opportunity in relation to the Restricted Mining Business (as defined in the prospectus of the Company dated 28 September 2010) is made available to the Undertakers and/or any of their associates, the Undertakers shall promptly notify the Company in writing and refer such business opportunity for the Company's consideration and the Undertakers shall not and procure his/their associates shall not, invest or participate in any project or business opportunity unless such project or business opportunity has been rejected by the Company and the principal terms on which the Undertakers or his/their associates invest or participate are no more favourable than those made available to the Company. Each of the Undertakers has reviewed his/their respective business (excluding the business of the Group) and advised that during the year ended 31 December 2013, his/their respective business did not compete with the Group and there was no opportunity made available to the Undertakers to invest or participate in any such project or business opportunity that is governed by the Deed of Non-competition.

Each of the Undertakers has given a written confirmation to the Company that it has fully complied with the terms of the Deed of Non-competition. The independent non-executive Directors have also reviewed the confirmations by each of the Undertakers and concluded that each of the Undertakers has been in compliance with the Deed of Non-competition during the year ended 31 December 2013.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ITS ASSOCIATED CORPORATIONS

As at 31 December 2013, the interest and short positions of the Directors and chief executive of the Company in the shares and underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) ("**SFO**") as recorded in the register required to be kept pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Table 24. Interests in Shares

Name of Director	Nature of interest	Ordinary shares of USD0.01 each Total number of Shares held	Approximate percentage of total issued share capital
Mr. Odjargal Jambaljamts (Note 1)	Interest of controlled corporation	1,425,809,605 (L) 1,188,190,630 (S)	38.48% 32.07%
Mr. Od Jambaljamts (Note 2)	Interest of controlled corporation	1,347,455,493 (L) 1,254,495,537 (S)	36.37% 33.86%
Dr. Oyungerel Janchiv (Note 3)	Interest of controlled corporation	112,833,333 (L)	3.05%
Mr. Batsaikhan Purev (Note 4)	Interest of controlled corporation	183,000,000 (L)	4.94%

(L) – long position *(S) – short position*

Notes:

1. *Mr. Odjargal Jambaljamts, through Novel Holdings Group Limited which is 100% owned by him, is interested in 49.84% of MCS (Mongolia) Limited. MCS (Mongolia) Limited holds the entire interest of MCS Mining Group Limited which in turn holds 1,241,150,586 shares and has a short position in 1,148,190,630 shares in MMC. Novel Holdings Group Limited also directly holds 184,659,019 shares and has a short position in 40,000,000 shares in MMC under its name.*

2. *Mr. Od Jambaljamts, through Trimunkh Limited which is 100% owned by him, is interested in 28.69% of MCS (Mongolia) Limited. MCS (Mongolia) Limited holds the entire interest of MCS Mining Group Limited which in turn holds 1,241,150,586 shares and has a short position in 1,148,190,630 shares in MMC. Trimunkh Limited also directly holds 106,304,907 shares and has a short position in 106,304,907 shares in MMC under its name.*

3. *Dr. Oyungerel Janchiv, through Lotus Amsa Limited which is 100% owned by her, holds 112,833,333 shares in MMC.*

4. *The shares were registered in the name of Shunkhlai Mining. Mr. Batsaikhan Purev is interested in 50% of Shunkhlai Group LLC which holds the entire interest of Shunkhlai Mining LLC, which in turn holds the entire interest of Shunkhlai Mining.*

Table 25. Interest in underlying Shares

Name of Director	Nature of interest	Ordinary shares of USD0.01 each Total number of underlying Shares held pursuant to Share options under the Share option Scheme	Approximate percentage of total issued share capital
Dr. Battsengel Gotov	Beneficial owner	8,000,000 (L)	0.22%

(L) – long position

Save as disclosed above, as at 31 December 2013, so far as was known to any Director or chief executive of the Company, neither the Directors nor the chief executive had any interests or short positions in any Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of SFO).

SHARE OPTION SCHEME

The Share Option Scheme was adopted by the Company on 17 September 2010, which became effective on the Listing Date (the "**Adoption Date**"). Share Options could be granted within a period of 10 years from the Adoption Date. Therefore, as at 31 December 2013, the remaining life of the Share Option Scheme was approximately 6 years and 9 months. The purpose of the Share Option Scheme is to provide an opportunity for employees of the Group to acquire an equity participation in the Company and to encourage them to work towards enhancing the value of the Company for the benefit of the Company and its shareholders as a whole.

Eligibility

The Directors may invite any person belonging to any of the following classes of participants to take up options to subscribe for Shares:

(a) any employee or proposed employee (whether full time or part-time and including any executive Director), consultants or advisers of or to the Company, any of its subsidiaries or any entity ("**Invested Entity**") in which the Group holds an equity interest;

(b) any non-executive directors (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity;

(c) any supplier of goods or services to any member of the Group or any Invested Entity;

(d) any customer of the Group or any Invested Entity;

(e) any person or entity that provides research, development or other technological support to the Group or any Invested Entity; and

(f) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity.

The basis of eligibility of any of the classes of participants to the grant of any options shall be determined by the Directors from time to time on the basis of the participants' contribution to the development and growth of the Company.

Grant of options

Unless terminated by a resolution adopted at general meeting, the Directors shall be entitled at any time within a period of 10 years commencing on the Adoption Date to make an offer to such participant as the Directors may select to subscribe for such number of Shares at the subscription price as the Directors shall determine.

The option period of an option within which the Shares must be taken up may not end later than 10 years from the date of offer ("**Offer Date**"), while the Directors may fix any minimum period for which an option must be held, any performance targets that must be achieved and any other conditions that must be fulfilled before the option can be exercised upon the grant of an option to participant. HKD1.00 is payable on acceptance of the option within 28 days from the Offer Date.

Subscription price

The subscription price in respect of any option must be at least the highest of:

(a) the closing price of the Shares as stated in the SEHK's daily quotations sheet on the Offer Date;

(b) the average closing price of the Shares as stated in the SEHK's daily quotations sheet for the five business days immediately preceding the Offer Date; and

(c) the nominal value of the Shares.

Exercise of options

An option shall be exercisable in whole or in part by giving notice in writing to the Company accompanied by a payment for the full amount of the subscription price for the shares. An option shall be personal to the grantee and shall not be transferable or assignable.

Maximum number of shares available for subscription

The total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Group must not in aggregate exceed 10% of the total number of Shares in issue on the Listing Date which amounts to 359,712,250 Shares, representing 9.71% of the issued share capital of the Company as at the date of this annual report.

The maximum number of Shares to be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company must not in aggregate exceed 30% of the issued share capital from time to time. No option may be granted under any schemes of the Company (or the subsidiary of the Company) if such grant will result in the maximum number being exceeded.

Maximum entitlement of each participant

Unless approved by the Shareholders, the total number of Shares issued and to be issued upon exercise of all outstanding options granted under the Share Option Scheme and any other share option schemes of the Company (including both exercised and outstanding options) to each participant in any 12-months period must not exceed 1% of the Shares in issue. Each grant of options to a Director, chief executive or substantial Shareholder or any of their respective associates must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options).

Details of the movements in Share Options of the Company during the year ended 31 December 2013 are as follows:

Table 26. Director

					Number of Share Options				
Name of Director	Date of grant	Exercise period	Exercise price per share	Balance as at 1 January 2013	Granted during the year ended 31 December 2013	Lapsed during the year ended 31 December 2013	Cancelled during the year ended 31 December 2013	Exercised during the year ended 31 December 2013	Balance as at 31 December 2013
Dr. Battsengel Gotov	12 October 2011	(Note 1)	HKD6.66	3,000,000	–	–	–	–	3,000,000
	28 November 2012	(Note 2)	HKD3.92	5,000,000	–	–	–	–	5,000,000

Table 27. Employees of the Group other than the Directors

				Number of Share Options				
Date of grant	Exercise period	Exercise price per share	Balance as at 1 January 2013	Granted during the year ended 31 December 2013	Lapsed during the year ended 31 December 2013	Cancelled during the year ended 31 December 2013	Exercised during the year ended 31 December 2013	Balance as at 31 December 2013
12 October 2011	(Note 1)	HKD6.66	30,900,000	–	6,537,500	–	–	24,362,500
28 November 2012	(Note 2)	HKD3.92	17,750,000	–	–	–	–	17,750,000

Notes:

1. *The Share Options are subject to vesting scale in four tranches of 25% each. The exercise periods are as follows:*

   (1) first 25% of the Share Options granted – 12 October 2012 to 12 October 2019
   (2) second 25% of the Share Options granted – 12 October 2013 to 12 October 2019
   (3) third 25% of the Share Options granted – 12 October 2014 to 12 October 2019
   (4) fourth 25% of the Share Options granted – 12 October 2015 to 12 October 2019

2. *The Share Options are subject to vesting scale in three tranches. The exercise periods are as follows:*

   (1) first 25% of the Share Options granted – 28 November 2013 to 28 November 2020
   (2) second 25% of the Share Options granted – 28 November 2014 to 28 November 2020
   (3) third 50% of the Share Options granted – 28 November 2015 to 28 November 2020

Treatment of lapse of the share options

Pursuant to the Share Option Scheme, in the event that an employee ceases to be an employee of the Company before exercising the option in full, the option (to the extent not already exercised) shall lapse on the date of cessation or termination and not be exercisable unless the Directors otherwise determine. The offer letter to grantees also states that any option shares that have not yet vested according to the vesting scales shall be considered "Unvested Shares", and upon cessation of employment or services on behalf of the Company for any reason, no further vesting of the option will occur and any unvested portion of the option will terminate.

The Directors determined that in the event that an employee ceases to be an employee of the Company before exercising the option in full, only unvested share options (but not all the outstanding share options) will lapse effective from 1 August 2013.

RIGHTS TO PURCHASE SHARES OR DEBENTURES OF DIRECTORS AND CHIEF EXECUTIVE

Save as disclosed under the section headed "Share Option Scheme" above, at no time during the year ended 31 December 2013 had the Company or any of its subsidiaries, holding companies or any fellow subsidiaries entered into any arrangement which enables the Directors or chief executive to have the right to acquire benefits by means of acquisition of shares or debentures in the Company or any associated corporations.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2013, so far as was known to any Director or chief executive of the Company, shareholders (other than a Director or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept pursuant to section 336 of the SFO were as follows:

Table 28. Interest in the Shares and underlying Shares

	Ordinary shares of USD0.01 each		
Name of substantial shareholder	Nature of interest	Total number of Shares held	Approximate percentage of total issued share capital
MCS Mining Group Limited (Note 1)	Beneficial owner	1,241,150,586 (L) 1,148,190,630 (S)	33.50% 30.99%
MCS (Mongolia) Limited (Note 1)	Interest of controlled corporation	1,241,150,586 (L) 1,148,190,630 (S)	33.50% 30.99%
Novel Holdings Group Limited (Note 1)	Interest of controlled corporation/ Beneficial owner	1,425,809,605 (L) 1,188,190,630 (S)	38.48% 32.07%
Trimunkh Limited (Note 1)	Interest of controlled corporation/ Beneficial owner	1,347,455,493 (L) 1,254,495,537 (S)	36.37% 33.86%
Ms. Batmunkh Dashdeleg (Note 1)	Interest of spouse	1,425,809,605 (L) 1,188,190,630 (S)	38.48% 32.07%
Ms. Munkhsuren Surenkhuu (Note 1)	Interest of spouse	1,347,455,493 (L) 1,254,495,537 (S)	36.37% 33.86%

Name of substantial shareholder	Nature of interest	Ordinary shares of USD0.01 each Total number of Shares held	Approximate percentage of total issued share capital
Kerry Mining (UHG) Limited ("**KMUHG**") (Note 2)	Beneficial owner	300,000,000 (L)	8.10%
KMM (Note 2)	Interest of controlled corporation	300,000,000 (L)	8.10%
Fexos Limited ("**Fexos**") (Note 2)	Interest of controlled corporations	302,363,529 (L)	8.16%
Kerry Holdings Limited ("**KHL**") (Note 2)	Interest of controlled corporations	302,363,529 (L)	8.16%
Kerry Group Limited ("**KGL**") (Notes 2 and 3)	Interest of controlled corporations	412,172,352 (L)	11.12%
Genesis Asset Managers, LLP	Investment manager	222,167,638 (L)	6.00%

(L) – Long position (S) – Short position

Notes:

(1) The entire issued share capital of MCS Mining Group Limited is owned by MCS (Mongolia) Limited. MCS (Mongolia) Limited is owned as to approximately 49.84% by Novel Holdings Group Limited which in turn is wholly-owned by Mr. Odjargal Jambaljamts, and 28.69% by Trimunkh Limited which in turn is wholly-owned by Mr. Od Jambaljamts. MCS Mining Group Limited holds 1,241,150,586 shares and has a short position in 1,148,190,630 shares in MMC. Novel Holdings Group Limited and Trimunkh Limited each also directly holds 184,659,019 shares and 106,304,907 shares in MMC respectively, and has a short position in 40,000,000 shares and 106,304,907 shares respectively in MMC. Ms. Batmunkh Dashdeleg is the spouse of Mr. Odjargal Jambaljamts, and Ms. Munkhsuren Surenkhuu is the spouse of Mr. Od Jambaljamts.

(2) (a) KMUHG is a direct wholly-owned subsidiary of KMM. Fexos controls more than one-third of the voting power of KMM. Fexos is a direct wholly-owned subsidiary of KHL which in turn is a direct wholly-owned subsidiary of KGL. Accordingly, KMM, Fexos, KHL and KGL are deemed to be interested in the 300,000,000 shares that KMUHG is interested.

*(b) Fexos controls more than one-third of the voting power of Kerry Asset Management Limited ("**KAM**"). Fexos, KHL and KGL are deemed to be interested in the 2,363,529 shares that KAM is interested.*

(3) Out of KGL's corporate interest in 412,172,352 shares of the Company, KGL's wholly-owned subsidiaries (other than KHL) are interested in 109,808,823 shares of the Company, KHL (through companies that it controls more than one-third of the voting power) is interested in 302,363,529 shares of the Company.

Save as disclosed above, as at 31 December 2013, the Company has not been notified by any person (other than the Directors or chief executive of the Company) who had interests or short position in the shares or underlying shares of the Company.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

For the year ended 31 December 2013, the non-exempted connected transactions of the Group were USD3,399,981 and the CCTs were USD143,955,648.

The details of non-exempt connected transactions and CCTs for the year ended 31 December 2013 are set out on pages 62 to 71 of this annual report.

PLEDGE OF ASSETS OF THE GROUP

As at 31 December 2013, the Company pledged Energy Resources LLC's current accounts held with Trade and Development Bank of Mongolia, Khan Bank of Mongolia, Golomt Bank of Mongolia, its Debt Reserve Account for loan repayment, cooperation contract with Inner Mongolia Qinghua Group of China, coal mining agreement with Leighton LLC; EPCM contract for construction of the CHPP with Sedgman LLC; CHPP modules 1 and 2; UHG Power Plant; and water facilities for the EBRD, FMO and DEG Loan Agreements.

The Company pledged its Collection and Cash Collateral accounts with BNP Paribas, coal sales contracts with Winsway Resources Holdings Private Limited, Shenhua Bayannaoer Energy Co., Ltd, Bayannur Conglin Mining Co., Ltd, Wulate Zhongqi Jingshun Da Color Steel Engineering Co., Ltd and Inner Mongolia Qinghua Group of China and coal stockpile of Energy Resources LLC for the BNP Paribas Facility.

Share pledges of Mongolian Coal Corporation Limited and Mongolian Coal Corporation S.a.r.l. are shared among the BNP Paribas Facility and the Senior Notes.

Energy Resources LLC pledged its 4,207,500 common shares, being 25.5% of the common shares held by it in International Medical Centre LLC pursuant to the Share Pledge between Energy Resources LLC and EBRD dated 24 June 2013 to secure loan repayment obligation of International Medical Centre LLC in proportion to its equity interest in International Medical Centre LLC.

The total amount of indebtedness covered with above pledges is USD846.2 million as at 31 December 2013.

EMOLUMENT POLICY

The emolument policy of the Group is set to (1) recruit, retain and motivate qualified and experienced staff, including directors and senior management, (2) apply a responsible and sustainable remuneration practice, that is determined by reference to the performance of the individual, and the operational and financial results of the Group and is in line with the market practice and conditions, (3) ensure that no individual participates in deciding his/her own remuneration, and (4) ensure that the base salary levels and annual incentives are competitive in the market and comparable to the similar jobs in the peer companies.

The emolument of directors and senior management of the Group is determined by the remuneration committee of the Board and the emolument of staff is determined by the group management.

In addition to a base salary, the emolument of staff and directors and senior management is structured to include bonuses (such as a discretionary bonus), and benefits.

The Company has a Share Option Scheme to provide a long-term incentive and an opportunity for employees of the Group to acquire an equity participation in the Company. The company has not granted any Share Options to its employees for the year ended 31 December 2013.

The required competencies, skills and performance of the individual concerned and the specific role and responsibilities of the relevant position are considered in determining the emolument of an individual director or member of senior management.

RETIREMENT SCHEME

The Group participates in retirement benefit schemes pursuant to the relevant labour rules and regulations of Mongolia, the country of operation, whereby the Group is required to make contributions to the retirement schemes at a rate of 7% of the eligible employees' salaries. Based on collective agreement signed in 2013 and outcome of meeting with officials from Ministry of Mining, Labour union and the employers' representatives of mining industry, each employee who retires from mining industry shall receive payment equal to double of the minimum wage of the industry multiplied by the number of years worked in the mining industry.

The Group has no other retirement schemes beyond the retirement contributions described above. Particulars of the retirement scheme are set out in note 6 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles or relevant laws of the Cayman Islands where the Company is incorporated which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

CHARGE OF SHARES BY CONTROLLING SHAREHOLDER

On 9 June 2011, MCS Mining Group Limited, the controlling shareholder of the Company, entered into a share charge over the Shares with Standard Bank Plc ("**SB Charged Shares**") in respect of 334,483,750 Shares of the Company and on 27 November 2012, 15 March 2013, 5 April 2013 and on 3 December 2013 entered into further share charge of 800,000,000, 83,337,955, 100,000,000 and 45,172,994 Shares, respectively, in respect of the SB Charged Shares, whereby MCS Mining Group Limited granted security over the SB Charged Shares in favour of Standard Bank Plc. On 18 November 2011, MCS Mining Group Limited entered into a share charge over the Shares with IFC ("**IFC Charged Shares**") in respect of 36,679,681 Shares of the Company and on 28 December 2011 IFC exercised its conversion right to convert loan into 19,706,308 Shares, whereby MCS Mining Group Limited granted shares in favour of IFC.

ISSUE OF EQUITY SECURITIES

No additional shares were issued during the year ended 31 December 2013.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

For the year ended 31 December 2013, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

RELATED PARTY TRANSACTIONS

Details of the related party transactions undertaken in the normal course of business are set out in note 35 to the consolidated financial statements. In respect of those related party transactions that constituted connected transactions under the Listing Rules, they have complied with applicable requirements in accordance with the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

Rules 8.08(1)(a) and (b) of the Listing Rules require there to be an open market in the securities for which listing is sought and for a sufficient public float of an issuer's listed securities to be maintained. This normally means that (i) at least 25% of the issuer's total issued share capital must at all times be held by the public; and (ii) where an issuer has more than one class of securities apart from the class of securities for which listing is sought, the total securities of the issuer held by the public (on all regulated market(s) including the SEHK) at the time of listing must be at least 25% of the issuer's total issued share capital. However, the class of securities for which listing is sought must not be less than 15% of the issuer's total issued share capital, and must have an expected market capitalisation at the time of listing of not less than HKD50 million.

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Directors confirm that the Company has maintained the amount of public float as required under the Listing Rules during the year ended 31 December 2013.

DISCLOSURE UNDER RULE 13.20 OF THE LISTING RULES

The Directors are not aware of any circumstances resulting in the responsibility of disclosure under Rule 13.20 of the Listing Rules regarding the provision of advances by the Company to an entity.

POST BALANCE SHEET EVENTS

On 13 February 2014, Energy Resources LLC, pursuant to the Agreement received payment of MNT157,847,184,615 (equivalent to approximately USD90,323,295 at exchange rate on the payment receipt date) and the rights and duties of the parties under the Agreement became enforceable.

On 5 March 2014, the Company as a borrower entered into the Facilities Agreement with two international banks as arrangers and original lenders for a coal pre-export loan facility of USD150 million with a greenshoe option of up to USD50 million to the Company and fully refinanced the existing BNP Paribas Facility.

AUDITOR

Messrs. KPMG was engaged as auditor of the Company for the year ended 31 December 2013. Messrs. KPMG has audited the accompanying financial statements which were prepared in accordance with International Financial Reporting Standards.

The Company has retained Messrs. KPMG since the date of listing. Messrs. KPMG was re-appointed as auditor of the Company at the AGM held on 13 May 2013.

Messrs. KPMG will retire and, being eligible, offer itself for re-appointment. A resolution for the re-appointment of Messrs. KPMG as auditor of the Company will be proposed at the forthcoming AGM.

On behalf of the board

Odjargal Jambaljamts
Chairman

Hong Kong, 10 March 2014

Independent auditor's report
to the shareholders of Mongolian Mining Corporation
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Mongolian Mining Corporation (the "Company") and its subsidiaries (together the "Group") set out on pages 129 to 204, which comprise the consolidated and company balance sheets as at 31 December 2013, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013 and of the Group's loss and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

10 March 2014

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2013

	Note	2013 USD'000	2012 USD'000
Revenue	4	**437,339**	474,480
Cost of revenue	5	**(361,485)**	(420,400)
Gross profit		**75,854**	54,080
Other revenue		**592**	1,121
Other net income		**7,073**	5,418
Administrative expenses		**(52,410)**	(48,183)
Profit from operations		**31,109**	12,436
Finance income	6(a)	**9,551**	39,561
Finance costs	6(a)	**(95,095)**	(50,994)
Net finance costs	6(a)	**(85,544)**	(11,433)
Share of losses less profits of associates		**(1,087)**	(362)
(Loss)/profit before taxation	6	**(55,522)**	641
Income tax	7	**(2,551)**	(3,183)
Loss for the year		**(58,073)**	(2,542)
Other comprehensive income for the year (after reclassification adjustments)	12		
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on re-translation		**(137,693)**	(20,929)
Total comprehensive income for the year		**(195,766)**	(23,471)
Loss attributable to the equity shareholders of the Company		**(58,073)**	(2,542)
Total comprehensive income attributable to the equity shareholders of the Company		**(195,766)**	(23,471)
Basic loss per share	8	**(1.57) cents**	(0.07) cents
Diluted loss per share	8	**(1.57) cents**	(0.07) cents

The notes on pages 135 to 204 form part of these financial statements.

Consolidated Balance Sheet

at 31 December 2013

	Note	2013 USD'000	2012 USD'000
Non-current assets			
Property, plant and equipment, net	14	**574,467**	527,358
Construction in progress	15	**148,371**	242,838
Lease prepayments	16	**85**	103
Intangible assets	17	**696,354**	774,773
Interest in associates	19	**2,203**	3,808
Other non-current assets	20	**6,590**	26,727
Deferred tax assets	27(b)	**21,781**	19,144
Total non-current assets		**1,449,851**	1,594,751
Current assets			
Assets held for sale	21	**56,906**	–
Inventories	22	**106,461**	90,290
Trade and other receivables	23	**209,117**	207,914
Cash at bank and in hand	24	**76,535**	284,322
Total current assets		**449,019**	582,526
Current liabilities			
Short-term borrowings and current portion of long-term borrowings	25(b)	**141,818**	81,818
Trade and other payables	26	**287,951**	247,057
Current taxation	27(a)	**3,426**	3,950
Convertible bond	28	**–**	85,000
Obligations under finance leases		**81**	210
Total current liabilities		**433,276**	418,035
Net current assets		**15,743**	164,491
Total assets less current liabilities		**1,465,594**	1,759,242

Consolidated Balance Sheet
at 31 December 2013

	Note	**2013** **USD'000**	2012 USD'000
Non-current liabilities			
Long-term borrowings, less current portion	25(a)	**150,089**	249,113
Senior notes	29	**594,329**	592,891
Provisions	31	**10,118**	15,538
Deferred tax liabilities	27(b)	**149,627**	149,574
Obligations under finance leases		**9**	113
Other non-current liabilities		**455**	–
Total non-current liabilities		**904,627**	1,007,229
NET ASSETS		**560,967**	752,013
CAPITAL AND RESERVES			
Share capital	32(c)	**37,050**	37,050
Reserves		**523,917**	714,963
TOTAL EQUITY		**560,967**	752,013

Approved and authorised for issue by the board of directors on 10 March 2014.

Odjargal Jambaljamts
Chairman

Battsengel Gotov
Chief Executive Officer

The notes on pages 135 to 204 form part of these financial statements.

Balance Sheet

at 31 December 2013

	Note	2013 USD'000	2012 USD'000
Non-current assets			
Interests in subsidiaries	18	**1,337,384**	1,548,203
Total non-current assets		**1,337,384**	1,548,203
Current assets			
Trade and other receivables	23	**707**	12,420
Cash at bank and in hand	24	**519**	707
Total current assets		**1,226**	13,127
Current liabilities			
Short-term borrowings and current portion of long-term borrowings	25(b)	**80,000**	60,000
Trade and other payables	26	**122,476**	119,938
Convertible bond	28	**–**	85,000
Total current liabilities		**202,476**	264,938
Net current liabilities		**(201,250)**	(251,811)
Total assets less current liabilities		**1,136,134**	1,296,392
Non-current liabilities			
Long-term borrowings, less current portion	25(a)	**47,708**	125,768
Senior notes	29	**594,329**	592,891
Total non-current liabilities		**642,037**	718,659
NET ASSETS		**494,097**	577,733
CAPITAL AND RESERVES	32(a)		
Share capital		**37,050**	37,050
Reserves		**457,047**	540,683
TOTAL EQUITY		**494,097**	577,733

Approved and authorised for issue by the board of directors on 10 March 2014.

Odjargal Jambaljamts
Chairman

Battsengel Gotov
Chief Executive Officer

The notes on pages 135 to 204 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2013

	Note	Share capital USD'000 (Note 32(c))	Share premium USD'000 (Note 32(d)(i))	Other reserve USD'000 (Note 32(d)(ii))	Exchange reserve USD'000 (Note 32(d)(iii))	Retained earnings USD'000	Total equity USD'000
At 1 January 2012		37,050	608,650	16,215	(73,028)	179,977	768,864
Changes in equity for 2012:							
Loss for the year		–	–	–	–	(2,542)	(2,542)
Other comprehensive income		–	–	–	(20,929)	–	(20,929)
Total comprehensive income		–	–	–	(20,929)	(2,542)	(23,471)
Equity-settled share-based transactions	30	–	–	6,620	–	–	6,620
At 31 December 2012		37,050	608,650	22,835	(93,957)	177,435	752,013
At 1 January 2013		**37,050**	**608,650**	**22,835**	**(93,957)**	**177,435**	**752,013**
Changes in equity for 2013:							
Loss for the year		**–**	**–**	**–**	**–**	**(58,073)**	**(58,073)**
Other comprehensive income		**–**	**–**	**–**	**(137,693)**	**–**	**(137,693)**
Total comprehensive income		**–**	**–**	**–**	**(137,693)**	**(58,073)**	**(195,766)**
Equity-settled share-based transactions	30	**–**	**–**	**4,215**	**–**	**505**	**4,720**
At 31 December 2013		**37,050**	**608,650**	**27,050**	**(231,650)**	**119,867**	**560,967**

The notes on pages 135 to 204 form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2013

	Note	**2013 USD'000**	2012 USD'000
Cash flows from operating activities			
(Loss)/profit before taxation		**(55,522)**	641
Adjustments for:			
Depreciation and amortisation	6(c)	**65,132**	47,619
Impairment loss on trade and other receivables	6(c)	**17,220**	5,929
Share of losses of associates		**1,087**	362
Loss on disposal of an associate		**–**	133
(Gain)/loss on disposal of property, plant and equipment and construction in progress	6(c)	**(7,270)**	900
Net finance costs	6(a)	**85,544**	11,433
Equity-settled share-based payment expenses	6(b)	**4,720**	6,620
Changes in working capital:			
Increase in inventories		**(33,075)**	(31,019)
Increase in trade and other receivables		**(10,559)**	(96,444)
Increase in trade and other payables		**97,698**	13,630
Increase in other non-current liabilities		**455**	–
Cash generated from/(used in) operations		**165,430**	(40,196)
Income tax paid	27(a)	**(4,719)**	(21,527)
Net cash generated from/(used in) operating activities		**160,711**	(61,723)
Investing activities			
Payments for acquisition of property, plant and equipment and construction in progress		**(183,465)**	(284,432)
Withdrawal/(placement) of time deposits		**190,000**	(53,241)
Interest received		**14,424**	17,251
Net cash generated from/(used in) investing activities		**20,959**	(320,422)
Financing activities			
Proceeds from issue of senior notes		**–**	589,679
Proceeds from borrowings		**60,000**	194,246
Repayment of borrowings		**(186,818)**	(344,818)
Interest paid		**(72,478)**	(50,398)
Payment of transaction costs on issue of senior notes		**–**	(2,999)
Net cash (used in)/generated from financing activities		**(199,296)**	385,710
Net (decrease)/increase in cash and cash equivalents		**(17,626)**	3,565
Cash and cash equivalents at beginning of the year		**44,322**	41,006
Effect of foreign exchange rate changes		**(161)**	(249)
Cash and cash equivalents at end of the year	24	**26,535**	44,322

The notes on pages 135 to 204 form part of these financial statements.

1 CORPORATE INFORMATION

Mongolian Mining Corporation (the "Company") was incorporated in the Cayman Islands on 18 May 2010 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company and its subsidiaries (together referred to as the "Group") are principally engaged in the mining, processing, transportation and sale of coal.

Pursuant to a group reorganisation completed on 17 September 2010 (the "Reorganisation") to rationalise the group structure for the public listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company's shares were listed on the Stock Exchange on 13 October 2010. Details of the Reorganisation are set out in the prospectus of the Company dated 28 September 2010.

The Group entered into a share purchase agreement with Quincunx (BVI) Ltd. and its parent, Kerry Mining (Mongolia) Limited (collectively the "Seller) on 31 May 2011 ("Share Purchase Agreement") in relation to the acquisition of the entire issued share capital of Baruun Naran Limited (the "Acquisition"). Baruun Naran Limited ultimately owns the Baruun Naran Coking Coal Mine ("BN Mine"), which is located in southern Mongolia, Umnugobi Aimag (South Gobi province). The Acquisition was completed on 1 June 2011. In order to rationalise the Seller's structure which was not cost effective for the Group, Mongolian Coal Corporation Limited owned by the Company (in its capacity as sole shareholder) made a decision to wind up Baruun Naran Limited voluntarily on 21 June 2012. Accordingly, Baruun Naran Limited (Gibraltar registered company) has been liquidated and its all assets were transferred to Mongolian Coal Corporation Limited on 16 July 2012.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements of the Company and of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), promulgated by the International Accounting Standards Board ("IASB"). IFRSs include all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and related interpretations. These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange. A summary of the significant accounting policies adopted by the Group is set out below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of preparation of the financial statements

As of 31 December 2013, the Group had balance of cash at bank and in hand of USD76,535,000 and aggregate outstanding short-term borrowings and current portion of long-term borrowings of USD141,818,000 together with aggregate payables of USD291,377,000, which are due within the next twelve months. The directors of the Company have taken measures to enhance the Group's liquidity and solvency position. Subsequent to balance sheet date, the Group has refinanced the outstanding loan of USD130,000,000 and obtained additional loans with an amount of USD20,000,000 by increasing the size of the loan, refinanced short-term loans of USD40,000,000 into a revolving credit facility, and completed the sales transaction of paved road and received the payment with amount of USD90,323,000 (converted at prevailing exchange rate on payment receipt date). Based on management's estimation of the future cash flows of the Group, after taking into account: (i) the additional loans obtained after the balance sheet date; (ii) the subsequent sales of paved road after the balance sheet date; (iii) the subsequent agreement of extension and adjustment on the repayment schedule for certain borrowings and payables that are due within the next twelve months as of 31 December 2013; and (iv) a planned reduction of inventory level for the next twelve months as of 31 December 2013, the Group is able to generate sufficient funds to meet its short-term obligations as and when they fall due. Accordingly, the consolidated financial statements of the Group have been prepared on a going concern basis.

The consolidated financial statements for the year ended 31 December 2013 comprise the Company and its subsidiaries and its interest in associates.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that derivative financial instruments are stated at their fair value (see Note 2(f)). Non-current assets held for sale are stated at the lower of carrying amount and fair value less costs to sell (see Note 2(x)).

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 3.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies

The IASB has issued a number of new IFRSs and amendments to IFRSs that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- Amendments to IAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*
- IFRS 10, *Consolidated financial statements*
- IFRS 12, *Disclosure of interests in other entities*
- IFRS 13, *Fair value measurement*
- *Annual Improvements to IFRSs 2009-2011 Cycle*
- *Amendments to IFRS 7 – Disclosures – Offsetting financial assets and financial liabilities*
- IFRIC 20, *Stripping costs in the production phase of a surface mine*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of these new or amended IFRSs are discussed below:

Amendments to IAS 1, Presentation of financial statements – Presentation of items of other comprehensive income

The amendments require entities to present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The presentation of other comprehensive income in the consolidated statement of comprehensive income in these financial statements has been modified accordingly.

IFRS 10, Consolidated financial statements

IFRS 10 replaces the requirements in IAS 27, *Consolidated and separate financial statements* relating to the preparation of consolidated financial statements and SIC 12 *Consolidation – Special purpose entities*. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

As a result of the adoption of IFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies (continued)

IFRS 12, Disclosure of interests in other entities

IFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by IFRS 12 are generally more extensive than those previously required by the respective standards. To the extent that the requirements are applicable to the Group, the Group has provided those disclosures in Notes 18 and 19.

IFRS 13, Fair value measurement

IFRS 13 replaces existing guidance in individual IFRSs with a single source of fair value measurement guidance. IFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. To the extent that the requirements are applicable to the Group, the Group has provided those disclosures in Note 33. The adoption of IFRS 13 does not have any material impact on the fair value measurements of the Group's assets and liabilities.

Annual Improvements to IFRSs 2009-2011 Cycle

This cycle of annual improvements contains amendments to five standards with consequential amendments to other standards and interpretations. Among them, IAS 1 has been amended to clarify that an opening balance sheet is required only when a retrospective application of an accounting policy, a retrospective restatement or a reclassification has a material effect on the information presented in the opening balance sheet. The amendments also remove the requirement to present related notes to the opening balance sheet when such statement is presented.

The adoption of the amendments does not have an impact on these financial statements.

Amendments to IFRS 7 – Disclosures – Offsetting financial assets and financial liabilities

The amendments introduce new disclosures in respect of offsetting financial assets and financial liabilities. Those new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32, *Financial instruments:* Presentation and those that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether the financial instruments are set off in accordance with IAS 32.

The adoption of the amendments does not have an impact on these financial statements because the Group has not offset financial instruments, nor has it entered into master netting arrangement or similar agreement which is subject to the disclosures of IFRS 7 during the periods presented.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies (continued)

IFRIC 20, Stripping costs in the production phase of a surface mine

IFRIC 20 provides guidance on the accounting for the costs of stripping activity in the production phase of surface mining when one of the two benefits accrue to the entity from the stripping activity: useable ore that can be used to produce inventory or improved access to further quantities of material that will be mined in future periods.

Upon adoption of IFRIC 20, the Group assessed the previously recognised stripping activity asset on the balance sheet as at 1 January 2012 and determined that there are identifiable components of the ore body with which this stripping activity asset can be associated. Accordingly, no opening consolidated balance sheet as at 1 January 2012 was presented as no opening balance adjustment was recorded.

In addition, the Group assessed the effect of the adoption of IFRIC 20 and determined that the effects to the Group's result for the year ended 31 December 2012 and the Group's financial position as at 31 December 2012 are not material and does not require any restatement of the comparative figures in these financial statements.

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An interest in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Subsidiaries and non-controlling interests (continued)

Non-controlling interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet in accordance with Notes 2(n) or (o) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an interest in an associate (see Note 2(e)) or joint venture.

In the Company's balance sheet, an interest in a subsidiary is stated at cost less impairment losses (see Note 2(j)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(e) Associates

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An interest in an associate is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see Note 2(j)(i)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in profit or loss whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in other comprehensive income in the consolidated statement of comprehensive income.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Associates (continued)

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net interest in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

(f) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

(g) Property, plant and equipment

Property, plant and equipment, which consist of buildings, plant and equipment, motor vehicles, office equipment, mining properties are stated at cost less accumulated depreciation and impairment losses (see Note 2(j)(ii)). The cost of an asset comprises its purchase price, any directly attributable costs of bringing the asset to its present working condition and location for its intended use, the cost of borrowed funds used during the period of construction and, when relevant, the costs of dismantling and removing the items and restoring the site on which they are located, and changes in the measurement of existing liabilities recognised for these costs resulting from changes in the timing or outflow of resources required to settle the obligation or from changes in the discount rate.

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other cost is recognised as an expense in profit or loss in the period in which it is incurred.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Property, plant and equipment (continued)

In open pit mining operations, the removal of overburden and waste materials, referred to as stripping, is required to obtain access to the ore body. Stripping costs incurred during the development phase of a mine are capitalised as stripping activity asset forming part of the cost of constructing the mining properties.

Stripping costs incurred during the production phase of a surface mine are variable production costs that are included in the costs of inventory produced during the period that the stripping costs are incurred (Note 2(k)), unless the stripping activity can be shown to give rise to probably future economic benefits from the mineral property by improving the access to the ore body, the component of the ore body for which assess has been improved is identifiable and the costs associated with that component can be reliably measured, in which case the stripping costs would be capitalised as stripping activity asset included in property, plant and equipment – mining properties.

All other expenditures, including the cost of repairs and maintenance and major overhaul, are expensed as they are incurred.

Construction in progress represents property, plant and equipment under construction and equipment pending installation, and is initially recognised at cost less impairment losses (Note 2(j)(ii)). Cost comprises cost of materials, direct labour and an appropriate proportion of production overheads and borrowing costs (Note 2(w)). Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use. No depreciation is provided in respect of construction in progress until it is completed and substantially ready for its intended use.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, other than mining properties, over their estimated useful lives using the straight-line method, after taking into account the estimated residual values.

The estimated useful lives of property, plant and equipment are as follows:

	Depreciable life
– Buildings and plants	10-40 years
– Machinery and equipment	10 years
– Motor vehicles	5-10 years
– Office equipment	3-10 years

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Property, plant and equipment (continued)

Mining properties, except for stripping activity assets related to capitalised stripping costs incurred during the production phase, are depreciated on the units-of-production method utilising only proven and probable coal reserves in the depletion base.

Stripping activity assets related to stripping costs incurred during the production phase are depreciated using a units-of-production basis over the proven and probable coal reserves of the component to which they relate.

No depreciation is provided in respect of construction in progress until it is substantially completed and ready for its intended use.

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(h) Intangible assets

Intangible assets (acquired mining rights and operating right related to paved road) acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following the initial recognition, intangible assets are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note 2(j)).

Intangible assets (acquired mining rights) are depreciated on the units-of-production method utilising only proven and probable coal reserves in the depletion base.

Amortisation of other intangible assets with finite useful lives is recognised in profit or loss on a straight-line basis over the expected useful lives. The operating right related to paved road is amortised over 10 years after the commission of the paved road.

Both the period and method of amortisation are reviewed annually.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 2(g). Impairment losses are accounted for in accordance with the accounting policy as set out in Note 2(j)(ii). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iv) Lease prepayments

Lease prepayments represent the costs of acquiring the land use rights. Land use rights are carried at cost less accumulated amortisation and impairment losses (see Note 2(j)(ii)). Amortisation is charged to profit or loss on a straight-line basis over the period of the land use rights.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Impairment of assets

(i) Impairment of interest in associate and trade and other receivables

Interest in associate and trade and other receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For interest in associate accounted for under the equity method in the consolidated financial statements (see Note 2(e)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with Note 2(j)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with Note 2(j)(ii).

– For trade and other current receivables carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Impairment of assets (continued)

(i) Impairment of interest in associate and trade and other receivables (continued)

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade and other receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– construction in progress;

– lease prepayments;

– intangible assets;

– other non-current assets (excluding receivables); and

– interests in subsidiaries in the Company's balance sheet.

If any such indication exists, the asset's recoverable amount is estimated.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

– Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the cash-generating unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable), or value in use (if determinable).

– Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss for the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange, the Group is required to prepare an interim financial report in compliance with IAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see Notes 2(j)(i) and (ii)).

(k) Inventories

Coal inventories are physically measured or estimated and valued at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, an appropriate portion of fixed and variable overhead costs, including the stripping costs incurred during the production phase, and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated future sales price of the product the Group expects to realise when such item is sold or processed, less estimated costs to complete and bring the product to sale.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Inventories (continued)

When coal inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Inventories of ancillary materials, spare parts and small tools used in production are stated at cost less impairment losses for obsolescence.

(l) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see Note 2(j)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(m) Convertible bond

Convertible bond which does not contain an equity component are accounted for as follows:

At initial recognition the derivative component of the convertible bond is measured at fair value and presented as part of derivative financial instruments (see Note 2(f)). Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs that relate to the issue of the convertible bond are allocated to the liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in profit or loss.

The derivative component is subsequently remeasured in accordance with Note 2(f). The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method.

If the bond is converted, the carrying amounts of the derivative and liability components are transferred to share capital and share premium as consideration for the shares issued. If the bond is redeemed, any difference between the amount paid and the carrying amounts of both components is recognised in profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(o) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(p) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(q) Employee benefits

(i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued for the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in other reserve within equity. The fair value is measured at grant date using Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the other reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the other reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the other reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained earnings).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to interests in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Income tax (continued)

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividend is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, the Company or the Group have the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(s) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Obligations for reclamation

The Group's obligations for reclamation consist of spending estimates at its mines in accordance with the relevant rules and regulations in Mongolia. The Group estimates its liabilities for final reclamation and mine closure based upon detailed calculations of the amount and timing of the future cash spending to perform the required work. Spending estimates are escalated for inflation, then discounted at a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability such that the amount of provision reflects the present value of the expenditures expected to be required to settle the obligation. The Group records a corresponding asset associated with the liability for final reclamation and mine closure, which is included in the mining properties. The obligation and corresponding asset are recognised in the period in which the liability is incurred. The asset is depreciated on the units-of-production method over its expected life and the liability is accreted to the projected spending date. As changes in estimates occur (such as mine plan revisions, changes in estimated costs, or changes in timing of the performance of reclamation activities), the revisions to the obligation and the corresponding asset are recognised at the appropriate discount rate.

(u) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue associated with the sale of coal is recognised when the risks and rewards of ownership of the goods have been passed to the customer. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts and volume rebates.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(v) Translation of foreign currencies

The presentation currency of the Group is USD. The functional currency of the Company and the investment holding companies is USD and the functional currency of other group entities located in Mongolia is Mongolian Togrog ("MNT"). Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Translation of foreign currencies (continued)

The results of operations in Mongolia are translated into USD at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into USD at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(w) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(x) Non-current assets held for sale

A non-current asset is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset is available for sale in its present condition.

Immediately before classification as held for sale, the measurement of the non-current assets is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below) are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the Group and the Company are concerned are deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries, associates and joint ventures) and investment properties. These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in Note 2.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in profit or loss. As long as a non-current asset is classified as held for sale the non-current asset is not depreciated or amortised.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(z) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 ACCOUNTING JUDGEMENTS AND ESTIMATES

In determining the carrying amounts of certain assets and liabilities, the Group makes assumptions of the effects of uncertain future events on those assets and liabilities at the balance sheet date. These estimates involve assumptions about such items as risk adjustment to cash flows or discount rates used, future changes in salaries and future changes in prices affecting other costs. The Group's estimates and assumptions are based on the expectations of future events and are reviewed periodically. In addition to assumptions and estimations of future events, judgements are also made during the process of applying the Group's accounting policies. In addition to those disclosed in Note 30 about equity-settled share-based payment transactions and in Note 34(c) about the environmental contingencies, other significant accounting estimates and judgements were summarised as follows:

(a) Critical accounting judgements in applying the Group's accounting policies

(i) Reserves

Engineering estimates of the Group's coal reserves are inherently imprecise and represent only approximate amounts because of the subjective judgements 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 amortisation rates.

Despite the inherent imprecision in these engineering estimates, these estimates are used in determining depreciation and amortisation expenses and impairment loss. Depreciation and amortisation rates are determined based on estimated coal reserve quantity (the denominator) and capitalised costs of mining properties (the numerator). The capitalised cost of mining properties are depreciated and amortised based on the units produced.

3 ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

(a) Critical accounting judgements in applying the Group's accounting policies (continued)

(ii) Useful lives of property, plants and equipment

Management determines the estimated useful lives of and related depreciation charges for its property, plant and equipment. This estimate is based on the actual useful lives of assets of similar nature and functions. It could change significantly as a result of significant technical innovations and competitor actions in response to industry cycles. Management 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.

(iii) Impairment of assets

The Group reviews the carrying amounts of the assets at each balance sheet date to determine whether there is objective evidence of impairment. When indication of impairment is identified, management prepares discounted future cashflow 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 the Group's net asset value.

In relation to trade and other receivables (including the value-added tax ("VAT") receivables), a provision for impairment is made and an impairment loss is recognised in profit or loss when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. Management uses judgment in determining the probability of insolvency or significant financial difficulties of the debtor.

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

(iv) Obligation for reclamation

The estimation of the liabilities for final reclamation and mine closure 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. The Group considers the 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 reclamation and mine closure works to be performed. Determination of the effect of these factors involves judgements from the Group and the estimated liabilities may turn out to be different from the actual expenditure to be incurred. The discount rate used by the Group 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 the borrowing rate and inflation rate in the market. As changes in estimates occur (such as mine plan revisions, changes in estimated costs, or changes in timing of the performance of reclamation activities), the revisions to the obligation will be recognised at the appropriate discount rate.

3 ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

(a) Critical accounting judgements in applying the Group's accounting policies (continued)

(v) Recognition of deferred tax assets

Deferred tax assets in respect of unused tax losses and tax credit carried forward and deductible temporary differences are recognised and measured based on the expected manner of realisation 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 the operating environment of the Group and require a significant level of judgement exercised by the directors. Any change in such assumptions and judgement would affect the carrying amounts of deferred tax assets to be recognised and hence the net profit in the future years.

(vi) Derivative financial instruments

In determining the fair value of the derivative financial instruments, considerable judgement is required to interpret market data used in the valuation techniques. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

(vii) Exploration and evaluation expenditure

The application of the Group's accounting policy for exploration and evaluation expenditure requires judgement in determining whether it is likely that future economic benefits will flow to the Group. It requires management to make certain estimates and assumptions about future events or circumstances, in particular, whether an economically viable extraction operation can be established. Estimates and assumptions made may change if new information becomes available. If, after expenditure is capitalised, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalised is written off in profit or loss in the period when the new information becomes available.

3 ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

(a) Critical accounting judgements in applying the Group's accounting policies (continued)

(viii) Capitalised stripping costs

Production stripping costs can be incurred both in relation to the production of inventory in that period and the creation of improved access and mining flexibility in relation to ore to be mined in the future. The former are included as part of the costs of inventory, while the latter are capitalised as stripping activity asset, where certain criteria are met. Significant judgement is required to distinguish between the production stripping that related to the extraction of inventory and what relates to the creation of stripping activity asset.

Once the Group has identified its production stripping for each surface mining operation, it identifies the separate components of the ore bodies for each of its mining operations. An identifiable component is a specific volume of the ore body that is made more accessible by the stripping activity. Significant judgement is required to identify and define these components, and also to determine the expected volumes of waste to be stripped and ore to be mined in each of these components. These assessments are undertaken for each individual mining operation based on the information available in the mine plan. The mine plans and, therefore, the identification of components, will vary between mines for a number of reasons. These include, but are not limited to, the type of commodity, the geological characteristics of the ore body, the geographical location and/or financial considerations.

Judgement is also required to identify a suitable production measure to be used to allocation production stripping costs between inventory and any stripping activity asset for each component. The Group considers that the ratio of the expected volume of waste to be stripped for an expected volume of ore to be mined for a specific component of the ore body, the most suitable production measure.

(ix) Taxations

The Group is subject to various taxes and levies in the jurisdictions where it has operations. The Group makes payments and determines the provision for tax and levy liabilities primarily based on the computations as prepared by the Group. Nevertheless, judgement is required in determining the provision for taxes and levies as there are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business, there are possible cases of disagreements with the relevant authorities on treatment of certain items included in the computations and certain non-routine transactions. The Group uses its best judgement to determine the probability although it is typically very difficult to determine the timing and ultimate outcome of each case. If the Group considers it probable that these judgement will result in different positions, the most likely amounts of the outcome will be estimated and adjustments to the liabilities will be made in the period in which such determination is made. Due to the inherent uncertainties related to the eventual outcome of each case, it is probable that certain matters may be resolved for amounts materially different from any estimated provisions or previous disclosures.

3 ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

(b) Sources of estimation uncertainty

Other than requiring critical accounting judgements, assumptions concerning the future and other major sources of estimation uncertainty at the end of the reporting period are required in relation to the Group's accounting policies on "obligations for reclamation", "recognition of deferred tax assets" and "derivative financial instruments". Information about the assumptions and their risk factors are set out in Notes 3(a) (iv), (v) and (vi).

4 REVENUE

The Group is principally engaged in the mining, processing, transportation and sale of coal. Revenue represents the sales value of goods sold to customers exclusive of value added or sales taxes and after deduction of any trade discounts and volume rebates. The amount of each significant category of revenue recognised in revenue during the year is as follows:

	2013	2012
	USD'000	USD'000
Washed hard-coking coal ("**HCC**")	**392,487**	371,160
Washed semi-soft coking coal ("**SSCC**")	**2,452**	17,234
Washed thermal coal ("**middlings**")	**38,530**	57,341
Raw coal ("**ROM coal**")	**3,870**	28,745
	437,339	474,480

During the year ended 31 December 2013, the Group had two customers that individually exceeded 10% of the Group's turnover, being USD196,189,000 and USD108,088,000 respectively. During the year ended 31 December 2012, the Group had three customers that individually exceeded 10% of the Group's turnover, being USD168,300,000, USD115,601,000 and USD59,778,000, respectively.

Details of concentrations of credit risk arising from these customers are set out in Note 33(b).

5 COST OF REVENUE

	2013	2012
	USD'000	USD'000
Mining costs	**137,268**	123,541
Processing costs	**38,824**	51,031
Transportation costs	**96,748**	130,871
Others#	**88,645**	114,957
	361,485	420,400

Others include USD26,621,000 (2012: USD34,756,000) relating to the royalty tax on the coals sold.

6 (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation is arrived at after charging/(crediting):

(a) Net finance costs:

	2013 **USD'000**	2012 USD'000
Interest income	**(9,551)**	(20,345)
Net change in fair value of derivative component of senior notes (Notes 23 and 29)	**–**	(7,500)
Foreign exchange gain, net	**–**	(11,716)
Finance income	**(9,551)**	(39,561)
Net change in fair value of derivative component of senior notes (Notes 23 and 29)	**11,720**	–
Interest on bank and other borrowings	**21,456**	20,300
Net change in fair value of derivative component of convertible bond (Note 28)	**–**	(2,429)
Interest on liability component of convertible bond (Note 28)	**1,034**	6,766
Interest on liability component of senior notes (Note 29)	**54,688**	41,417
Transaction costs	**2,777**	3,822
Unwinding interest on		
– Obligations under finance lease	**35**	94
– Accrued reclamation obligations (Note 31)	**1,163**	1,070
Less: Interest expense capitalised	**(16,248)**	(20,046)
Net interest expense	**76,625**	50,994
Foreign exchange loss, net	**18,470**	–
Finance costs	**95,095**	50,994
Net finance costs	**85,544**	11,433

* *Borrowing costs have been capitalised at a rate of 8.1% and 8.5% per annum for the years ended 31 December 2013 and 2012, respectively.*

(b) Staff costs:

	2013 **USD'000**	2012 USD'000
Salaries, wages, bonuses and benefits	**36,240**	34,718
Retirement scheme contributions	**4,516**	2,602
Equity-settled share-based payment expenses (Note 30)	**4,720**	6,620
	45,476	43,940

6 (LOSS)/PROFIT BEFORE TAXATION (continued)

(b) Staff costs: (continued)

Pursuant to the relevant labor rules and regulations in Mongolia, the Group participates in defined contribution retirement benefit schemes (the "Schemes") organised by the Government of Mongolia whereby the Group is required to make contributions to the Schemes at a rate of 7% of the eligible employees' salaries. Contributions to the Schemes vest immediately.

The Group has no other material obligation for the payment of pension benefits beyond the annual contributions described above.

(c) Other items:

	2013 **USD'000**	2012 USD'000
Depreciation and amortisation	**65,132**	47,619
Provision for impairment losses on trade and other receivables (Note 23(b))	**7,029**	5,929
Impairment losses on trade and other receivables directly written off to profit or loss (Note 23(b))	**10,191**	–
	17,220	5,929
Operating lease charges:		
minimum lease payments		
– hire of plant and machinery	**4,196**	6,046
– hire of other assets (including property rentals)	**1,184**	1,317
	5,380	7,363
Net (gain)/losses on disposal of property, plant and equipment	**(7,270)**	900
Auditors' remuneration		
– audit services	**536**	595
– tax and other services	**399**	464
	935	1,059
Cost of inventories#	**361,485**	420,400

\# *Cost of inventories includes USD90,637,000 (2012: USD76,208,000), relating to personnel expenses, depreciation and amortisation and operating lease charges which are also included in the respective amounts disclosed separately above for each of these types of expenses. Also included in cost of inventories was transportation and stockpile losses amounted to USD7,850,000 (2012: USD19,478,000).*

7 INCOME TAX

(a) Income tax in the consolidated statement of comprehensive income represents:

	2013	2012
	USD'000	USD'000
Current tax		
Provision for the year		
– Mongolian Enterprise Income Tax (Note 27(a))	**8,477**	12,870
Deferred tax		
Origination and reversal of temporary difference (Note 27(b))	**(5,926)**	(9,687)
	2,551	3,183

(b) Reconciliation between tax expense and accounting (loss)/profit at applicable tax rates:

	2013	2012
	USD'000	USD'000
(Loss)/profit before income tax	**(55,522)**	641
Notional tax on (loss)/profit before taxation	**4,357**	(5,170)
Tax effect of non-deductible items (Note (iii))	**4,862**	2,207
Tax effect of non-taxable items (Note (iv))	**(5,987)**	(1,035)
Tax losses not recognised	**576**	7,392
Tax losses not recognised in previous years but utilised in current year	**(1,257)**	(211)
Actual tax expenses	**2,551**	3,183

Note:

(i) *Pursuant to the prevailing income tax rules and regulations of Mongolia, the Group is liable to Mongolian Enterprise Income Tax at a rate of 10% of first MNT3 billion taxable income and 25% of the remaining taxable income for the years ended 31 December 2013 and 2012.*

(ii) *Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands. The Group is not subject to Hong Kong and Luxembourg profits tax as it has no assessable income arising in or derived from Hong Kong and Luxembourg during the years ended 31 December 2013 and 2012.*

(iii) *Non-deductible items mainly represent the non-deductible expenses and the unrealised exchange losses which are non-deductible pursuant to the income tax rules and regulations of Mongolia during the years ended 31 December 2013 and 2012.*

(iv) *Non-taxable items mainly represent the unrealised exchange gains which are non-taxable pursuant to the income tax rules and regulations of Mongolia during the years ended 31 December 2013 and 2012.*

8 LOSS PER SHARE

(a) Basic loss per share

For the year ended 31 December 2013, the calculation of basic loss per share is based on the loss attributable to equity shareholders of the Company of USD58,073,000 (2012: USD2,542,000) and the weighted average of 3,705,036,500 ordinary shares (2012: 3,705,036,500 ordinary shares).

(b) Diluted loss per share

For the years ended 31 December 2013 and 2012, basic and diluted loss per share are the same as the effect of the potential ordinary shares outstanding is anti-dilutive.

The convertible bond and equity-settled share-based payment transactions (see Notes 28 and 30) are anti-dilutive and therefore not included in calculating diluted loss per share for the years ended 31 December 2013 and 2012.

9 DIRECTORS' REMUNERATION

Details of the directors' remuneration disclosed are as follows:

	Year ended 31 December 2013					
	Directors' fee USD'000	Salaries, allowances and benefits in kind USD'000	Discretionary bonuses USD'000	Retirement scheme contributions USD'000	Equity-settled share-based payment expenses USD'000	Total USD'000
Executive directors						
Odjargal Jambaljamts *(Chairman)*	18	205	–	15	–	238
Battsengel Gotov	18	131	–	10	938	1,097
Non-executive directors						
Enkhtuvshin Gombo	18	–	–	–	–	18
Oyungerel Janchiv	18	–	–	–	–	18
Batsaikhan Purev	18	–	–	–	–	18
Od Jambaljamts	18	–	–	–	–	18
Independent non-executive directors						
Ochirbat Punsalmaa	24	–	–	–	–	24
Unenbat Jigjid	27	–	–	–	–	27
Chan Tze Ching, Ignatius	58	–	–	–	–	58
Total	217	336	–	25	938	1,516

9 DIRECTORS' REMUNERATION (continued)

	Year ended 31 December 2012					
	Directors' fee USD'000	Salaries, allowances and benefits in kind USD'000	Discretionary bonuses USD'000	Retirement scheme contributions USD'000	Equity-settled share-based payment expenses USD'000	Total USD'000
Executive directors						
Odjargal Jambaljamts *(Chairman)*	–	146	114	18	–	278
Battsengel Gotov	–	98	110	14	623	845
Non-executive directors						
Gantumur Lingov						
(resigned on 12 October 2012)	14	–	–	–	–	14
Enkhtuvshin Gombo	18	–	–	–	–	18
Enkh-Amgalan Luvsantseren						
(resigned on 4 July 2012)	9	–	–	–	–	9
Oyungerel Janchiv	18	–	–	–	–	18
Philip Hubert ter Woort						
(resigned on 12 October 2012)	–	–	–	–	–	–
Batsaikhan Purev	18	–	–	–	–	18
Od Jambaljamts						
(appointed on 4 July 2012)	9	–	–	–	–	9
Independent non – executive directors						
Ochirbat Punsalmaa	24	–	–	–	–	24
Unenbat Jigjid	27	–	–	–	–	27
Chan Tze Ching, Ignatius	58	–	–	–	–	58
Total	195	244	224	32	623	1,317

No emoluments have been paid to the directors as an inducement to join or upon joining the Group or as compensation for loss of office during the years ended 31 December 2013 and 2012.

Philip Hubert ter Woort waived all his emoluments from 1 January 2012 to 12 October 2012 (date of resignation).

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

The number of directors and non-directors included in the five highest paid individuals is set forth below:

	2013	2012
Directors	**1**	1
Non-directors	**4**	4
	5	5

The emoluments of the directors are disclosed in Note 9. The aggregate of the emoluments in respect of the remaining highest paid individuals are as follows:

	2013 **USD'000**	2012 USD'000
Basic salaries, allowances and benefits in kind	**313**	428
Discretionary bonuses	**443**	455
Retirement scheme contributions	**51**	59
Equity-settled share-based payment expenses (Note)	**2,651**	1,673
	3,458	2,615

The emoluments of the remaining individuals with the highest emoluments are within the following band:

	2013	2012
HKD4,000,001 to HKD4,500,000	**–**	1
HKD5,000,001 to HKD5,500,000	**–**	2
HKD5,500,001 to HKD6,000,000	**1**	1
HKD6,000,001 to HKD6,500,000	**2**	–
HKD8,000,001 to HKD8,500,000	**1**	–

No emoluments have been paid to these individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the years ended 31 December 2013 and 2012.

Note:

These represent the estimated value of share options granted to the key management under the Group's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in Note 2(q)(ii) and, in accordance with that policy, included adjustments to reverse amounts accrued in previous years where grants of equity instruments are forfeited prior to vesting.

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share option scheme" in the directors' report and Note 30.

11 LOSS ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated loss attributable to the equity shareholders of the Company includes loss of USD88,356,000 (2012: USD61,414,000) which has been dealt with in the financial statements of the Company.

12 OTHER COMPREHENSIVE INCOME

	2013	2012
	USD'000	USD'000
Exchange differences on translation of:		
– financial statements of overseas subsidiaries	**30,774**	(1,113)
– net investment	**117,811**	22,042
Reclassification adjustments for amounts transferred to profit or loss:		
– disposal of net investment	**(10,892)**	–
	137,693	20,929

The components of other comprehensive income do not have any significant tax effect for the years ended 31 December 2013 and 2012.

13 SEGMENT REPORTING

The Group has one business segment, the mining, processing, transportation and sale of coal. The majority of its customers are located in China. Based on information reported to the chief operating decision maker for the purpose of resource allocation and performance assessment, the Group's only operating segment is the mining, processing, transportation and sales of coal. Accordingly, no additional business and geographical segment information are presented.

14 PROPERTY, PLANT AND EQUIPMENT, NET

The Group

	Buildings and plants USD'000	Machinery and equipment USD'000	Motor vehicles USD'000	Office equipment USD'000	Mining properties USD'000	Total USD'000
Cost:						
At 1 January 2012	117,012	109,208	50,539	5,223	84,818	366,800
Additions	1,811	1,668	10,567	2,988	50,271	67,305
Transfer from construction in progress (Note 15)	89,045	35,188	–	–	28,471	152,704
Disposals	(116)	(463)	(761)	(346)	–	(1,686)
Exchange adjustments	(1,794)	(531)	(78)	(47)	(1,614)	(4,064)
At 31 December 2012	205,958	145,070	60,267	7,818	161,946	581,059
At 1 January 2013	**205,958**	**145,070**	**60,267**	**7,818**	**161,946**	**581,059**
Additions	**17,614**	**1,778**	**453**	**234**	**125,125**	**145,204**
Transfer from construction in progress (Note 15)	**48,553**	**–**	**–**	**–**	**4,045**	**52,598**
Disposals	**(101)**	**(793)**	**(2,419)**	**(184)**	**–**	**(3,497)**
Exchange adjustments	**(38,063)**	**(23,056)**	**(9,266)**	**(1,242)**	**(33,119)**	**(104,746)**
At 31 December 2013	**233,961**	**122,999**	**49,035**	**6,626**	**257,997**	**670,618**
Accumulated amortisation and depreciation:						
At 1 January 2012	2,894	6,080	8,444	1,362	911	19,691
Charge for the year	8,348	13,538	11,525	1,363	791	35,565
Written back on disposals	(15)	(131)	(376)	(264)	–	(786)
Exchange adjustments	(187)	(301)	(240)	(22)	(19)	(769)
At 31 December 2012	11,040	19,186	19,353	2,439	1,683	53,701
At 1 January 2013	**11,040**	**19,186**	**19,353**	**2,439**	**1,683**	**53,701**
Charge for the year	**7,776**	**15,258**	**9,656**	**1,504**	**20,884**	**55,078**
Written back on disposals	**(44)**	**(420)**	**(437)**	**(86)**	**–**	**(987)**
Exchange adjustments	**(2,357)**	**(4,206)**	**(3,791)**	**(516)**	**(771)**	**(11,641)**
At 31 December 2013	**16,415**	**29,818**	**24,781**	**3,341**	**21,796**	**96,151**
Carrying amount:						
At 31 December 2013	**217,546**	**93,181**	**24,254**	**3,285**	**236,201**	**574,467**
At 31 December 2012	194,918	125,884	41,063	5,379	160,114	527,358

14 PROPERTY, PLANT AND EQUIPMENT, NET (continued)

(a) All the Group's property, plant and equipment are located in Mongolia.

(b) Mining properties at 31 December 2013 include stripping activity assets of USD211,487,000 (2012: USD106,319,000) and application fee for the mining rights of USD700,000 (2012: USD743,000) in relation to the Group's mine at the UHG deposit.

(c) The addition of mining properties for the year ended 31 December 2013 include the decrease of reclamation provision of USD3,631,000 (2012: increase of reclamation provision of USD3,430,000) (see Note 31).

(d) As at 31 December 2013, certain of the Group's borrowings were secured by the Group's coal handling and preparation plant-modules I and II, power plant and water supply infrastructure assets-phase I with net book values of USD123,836,000, USD33,901,000 and USD3,803,000, respectively (31 December 2012: USD172,320,000, USD46,351,000 and USD5,034,000, respectively) (see Note 25).

(e) As at 31 December 2013, the Group is in the process of applying for the ownership certificates for certain of its buildings. The aggregate carrying value of such properties of the Group as at 31 December 2013 is approximately USD15,480,000. The directors are of the opinion that the Group is entitled to lawfully occupy or use of these properties.

(f) Impairment

Given the fact that the carrying amount of the Group's net assets exceeded the Group's market capitalisation as at 31 December 2013, according to IAS 36, *Impairment of assets*, management has undertaken a review on the carrying amount of the Group's property, plant and equipment, construction in progress and intangible assets related to the UHG Mine and BN Mine operations (collectively referred to as "UHG and BN Assets") for impairment assessment. For the purpose of this, the UHG and BN Assets are treated as a cash generating unit ("CGU").

The recoverable amount of the CGU was based on value in use, determined by discounting the future cash flows to be generated from the continuing use of the UHG and BN Assets. The key assumptions used in the estimation of value in use were as follows:

– the coal price assumptions are management's best estimate of the future price of coal in the PRC. The short-term coal price assumptions for the next five years are building on past experience of the industry and consistent with external sources. These prices were adjusted to arrive at appropriate consistent price assumptions for the different qualities and type of coal. Estimated long-term coal prices, adjusted for the place of delivery, beyond the fifth year of USD150.6, USD133.5 and USD45.0 per tonne for HCC, SSCC and, middlings and ROM coal respectively have been used to estimate future revenues.

14 PROPERTY, PLANT AND EQUIPMENT, NET (continued)

(f) Impairment (continued)

- estimated production volumes are based on detailed life-of-mine plans and take into account development plans for the mines agreed by management as part of the long-term planning process. Production volumes are dependent on a number of variables, such as the recoverable quantities, the production profile, the cost of the development of the infrastructure necessary to extract the reserves, the production costs, the contractual duration of mining rights and the selling price of the coal extracted. The production profiles used were consistent with the reserves and resource volumes approved as part of the Group's process for the estimation of proved and probable reserves. These are then assessed to ensure they are consistent with what a market participant would estimate.

- pre-tax discount rate of 28% was applied to the future cash flows. This discount rate is derived from the Group's weighted average cost of capital ("WACC"), with appropriate adjustments made to reflect the risks specific to the CGU. The WACC takes into account both debt and equity, weighted based on the Group and comparable peer companies' average capital structure. The cost of equity is derived from the expected return on investment by the Group's investors based on publicly available market data of comparable peer companies. The cost of debt is based on the borrowing cost of interest-bearing borrowings of the Group that reflects the credit rating of the Company.

As at 31 December 2013, the recoverable amount of the CGU exceeds its carrying amount by USD16.3 million. The impairment assessment did not result in the identification of an impairment loss and no impairment loss is recognised as at 31 December 2013. The Company believes that the estimates and assumptions incorporated in the impairment assessment are reasonable, however, the estimates and assumptions are subject to significant uncertainties and judgements.

The Company performed an assessment on the impact of the reasonably possible changes in the assumptions that would have the most significant effect on the valuation. It is estimated that a decrease in coal prices by 1% or an increase in the pre-tax discount rate by 1 percentage point would cause the recoverable amount of the CGU to be equal to its carrying amount.

15 CONSTRUCTION IN PROGRESS

	The Group	
	2013	2012
	USD'000	USD'000
At 1 January	**242,838**	183,229
Additions	**36,480**	214,528
Transfer to property, plant and equipment (Note 14)	**(52,598)**	(152,704)
Derecognised upon the termination of Concession Agreement (Note 23)	**(50,964)**	–
Exchange adjustments	**(27,385)**	(2,215)
At 31 December	**148,371**	242,838

The construction in progress is mainly related to coal handling and preparation plant and other mining related machinery and equipment.

15 CONSTRUCTION IN PROGRESS (continued)

Included in construction in progress as at 31 December 2012 was an amount of USD60 million relating to the railway base infrastructure between Ukhaa Khudag coking coal mine and Gashuun Sukhait border check point of Mongolia (the "UHG-GS Railway") under a Build-Operate-Transfer Concession Agreement (the "Concession Agreement") with the GoM. On 6 May 2013, the GoM, represented by the Ministry of Road and Transportation ("MRT"), the State Property Committee ("SPC"), Mongolian Railway ("MTZ"), and the Group (together, the "Parties") signed an agreement pursuant to which the Parties agreed upon the terms and conditions according to which the Concession Agreement is terminated, and the existing contracts and obligations for the construction of the UHG-GS Railway will be reassigned to MTZ and/or its designated entity. The compensation amount for all the costs incurred by the Group in relation to the construction of the UHG-GS Railway was confirmed and agreed to be MNT93,677,314,158, of which MNT9,347,290,047 related outstanding payables to the Engineering, Procurement and Construction ("EPC") contractor of the Project has been assumed by the GoM, after which the reimbursable amount totals to MNT84,330,024,111.

This amount is to be further decreased to MNT83,734,932,315 (equivalent to USD57,914,000 converted at exchange rate on transaction date), as a result of:

a. exclusion of withholding tax calculation amounting to MNT49,108,109 accrued to a contractor, due to the reason that the contractor is to receive the payment under the name of its Mongolian subsidiary; and

b. exclusion of assets kept by the Group with net book value of MNT545,983,687.

Upon the termination of the Concession Agreement, the construction in progress relating to the UHG-GS Railway was derecognised and resulting a gain of USD7 million credited to "other net income" in the consolidated statement of comprehensive income.

16 LEASE PREPAYMENTS

	The Group	
	2013	2012
	USD'000	USD'000
Cost:		
At 1 January	**112**	112
Exchange adjustments	**(19)**	–
At 31 December	**93**	112
Accumulated amortisation:		
At 1 January	**9**	7
Charge for the year	**1**	2
Exchange adjustments	**(2)**	–
At 31 December	**8**	9
Net book value:	**85**	103

Lease prepayments comprise interests in leasehold land held for own use under operating leases located in Mongolia, with original lease period from 15 years to 60 years.

17 INTANGIBLE ASSETS

The Group

	Acquired mining right USD'000	Operating right paved road USD'000	Total USD'000
Cost:			
At 1 January 2012	596,557	86,839	683,396
Addition	105,000	–	105,000
Exchange adjustments	–	266	266
At 31 December 2012	701,557	87,105	788,662
At 1 January 2013	**701,557**	**87,105**	**788,662**
Classified as assets held for sale (Note 21)	**–**	**(73,308)**	**(73,308)**
Exchange adjustments	**–**	**(13,797)**	**(13,797)**
At 31 December 2013	**701,557**	**–**	**701,557**
Accumulated amortisation:			
At 1 January 2012	–	2,044	2,044
Charge for the year	3,110	8,942	12,052
Exchange adjustments	–	(207)	(207)
At 31 December 2012	3,110	10,779	13,889
At 1 January 2013	**3,110**	**10,779**	**13,889**
Charge for the year	**2,093**	**7,960**	**10,053**
Classified as assets held for sale (Note 21)	**–**	**(16,402)**	**(16,402)**
Exchange adjustments	**–**	**(2,337)**	**(2,337)**
At 31 December 2013	**5,203**	**–**	**5,203**
Carrying amount:			
At 31 December 2013	**696,354**	**–**	**696,354**
At 31 December 2012	698,447	76,326	774,773

Acquired mining right represents the mining right acquired during the acquisition of BN mine. The amortisation of acquired mining right and operating right of paved road charge for the year is included in "cost of revenue" and "other net income" in the consolidated statement of comprehensive income.

18 INTERESTS IN SUBSIDIARIES

	The Company	
	2013	2012
	USD'000	USD'000
Unlisted shares, at cost	**–**	–
Amount due from subsidiaries	**1,337,384**	1,548,203
	1,337,384	1,548,203

Particular of subsidiaries at 31 December 2013 are as follows:

Name of company	Place of incorporation and business	Particulars of issued and paid up capital	Equity attributable to the Company		Principal activities
			Direct	Indirect	
Mongolian Coal Corporation Limited	Hong Kong	1 share of HKD1 each	100%	–	Investment holding
Mongolian Coal Corporation S.a.r.l	Luxembourg	6,712,669 shares of USD10 each	–	100%	Investment holding
Energy Resources Corporation LLC	Mongolia	103,800,000 shares of USD1 each	–	100%	Investment holding
Energy Resources LLC	Mongolia	75,000,185 shares of USD2 each	–	100%	Mining and trading of coals
Energy Resources Rail LLC	Mongolia	15,300,000 shares of MNT1,000 each	–	100%	Railway project management
Transgobi LLC	Mongolia	9,122,642 shares of MNT1,000 each	–	100%	Coal haulage and logistics management
Tavan Tolgoi Airport LLC	Mongolia	5,795,521 shares of MNT1,000 each	–	100%	Airport operation and management
Enrestechnology LLC	Mongolia	374,049,073 shares of MNT1,000 each	–	100%	Coal plant management
Ukhaa Khudag Water Supply LLC	Mongolia	96,016,551 shares of MNT1,000 each	–	100%	Water exploration and supply management
United Power LLC	Mongolia	100,807,646 shares of MNT1,000 each	–	100%	Power supply project management
Gobi Road LLC	Mongolia	1,000 shares of MNT1,000 each	–	100%	Construction of road
Khangad Exploration LLC	Mongolia	34,532,399 shares of USD1 each	–	100%	Exploration and development of coal mine
Baruun Naran S.a.r.l	Luxembourg	24,918,394 shares of EUR1 each	–	100%	Investment holding
Energy Resources Mining LLC	Mongolia	72,001,000 shares of USD1 each	–	100%	Mining and technical management

19 INTEREST IN ASSOCIATES

	The Group	
	2013	2012
	USD'000	USD'000
Share of net assets	**2,203**	3,808

On 14 January 2011, the Group invested in International Medical Center LLC (the "International Medical Center") and had 25.5% interest in International Medical Center, an entity incorporated in Mongolia with issued and paid up capital of MNT22,522,500,000 (16,500,000 shares of MNT1,365 each). The principal activities of International Medical Center are the provision of health care, diagnostic and treatment services.

On 30 May 2011, the Group invested in International Technical College LLC (the "International Technical College") and had 33.33% interest in International Technical College, an entity incorporated in Mongolia with issued and paid up capital of MNT913,500,000 (913,500 shares of MNT1,000 each). The principal activity of International Technical College is technical education for ensuring the long- term availability of skilled technical workforce.

All of the above associates are accounted for using the equity method in the consolidated financial statements.

20 OTHER NON-CURRENT ASSETS

	The Group	
	2013	2012
	USD'000	USD'000
Non-current portion of trade receivables	**5,562**	–
Prepayments in connection with construction work, equipment purchases and others	**1,028**	23,442
Others	**–**	3,285
	6,590	26,727

21 ASSETS HELD FOR SALE

On 8 December 2013, the Group entered into a road transfer agreement with Erdenes MGL LLC (the "Agreement"), a stated owned enterprise, who was assigned by the GoM to take control of the UHG-GS Road assets along with all rights and responsibilities in relation to the operation and maintenance of the road. According to the Agreement, the operating right of paved road will be transferred to Erdenes MGL LLC with a consideration of MNT157,847,184,615 (equivalent to approximately USD90,323,000 converted at exchange rate on payment receipt date).

The intangible asset related to the operating right of paved road with a carrying amount of MNT94,127,456,758 (equivalent to approximately USD56,906,000) was classified as assets held for sale. The operating right of paved road is not depreciated since it was classified as assets held for sale.

Subsequent to the balance sheet date, the transaction was completed on 13 February 2014 when the Group received the payment pursuant to the Agreement and the rights and duties under the Agreement became enforceable. The transaction would result in a gain of MNT63,719,727,857 (equivalent to approximately USD36,462,000 converted at exchange rate on the payment receipt date) after taking into account the consideration received and the prevailing carrying value of the relevant assets concerned. Such gain will be credited to the Group's profit or loss in 2014.

22 INVENTORIES

(a) Inventories in the consolidated balance sheet comprise:

	The Group	
	2013	2012
	USD'000	USD'000
Coal	**88,011**	72,150
Materials and supplies	**18,450**	18,140
	106,461	90,290

As at 31 December 2013, certain of the Group's borrowings were secured by the Group's coal inventory of USD67,861,000 (31 December 2012: USD58,922,000) (see Note 25).

23 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2013	2012	**2013**	2012
	USD'000	USD'000	**USD'000**	USD'000
Trade receivables (Note (a))	**17,514**	35,819	**–**	–
Other receivables (Note (c))	**196,632**	178,024	**707**	12,420
	214,146	213,843	**707**	12,420
Less: allowance for doubtful debts (Note (b))	**(5,029)**	(5,929)	**–**	–
	209,117	207,914	**707**	12,420

(a) Ageing analysis

Trade receivables (net of allowance for doubtful debts) are invoiced amounts due from the Group's customers which are due from the date of billing. As at 31 December 2013 and 2012, all of the trade receivables are aged within one year.

(b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly (Note 2(j)(i)).

The movement in the allowance for doubtful debts during the year is as follows:

	The Group	
	2013	2012
	USD'000	USD'000
At 1 January	**5,929**	4,145
Provision for impairment losses	**7,029**	5,929
Amounts written off	**(7,929)**	(4,145)
At 31 December	**5,029**	5,929

As at 31 December 2013, an allowance for doubtful debts amounting to USD5,029,000 (2012: USD5,929,000) was made on a collective basis in respect of the Group's trade receivable balances outstanding at the balance sheet date, which have been included in "administrative expenses" in the consolidated statement of comprehensive income.

23 TRADE AND OTHER RECEIVABLES (continued)

(b) Impairment of trade receivables (continued)

During the year ended 31 December 2013, certain customers of the Group were in financial difficulties and management assessed that the recoverability of trade receivables due from these customers is remote, and USD7,929,000 have been written off against allowance for doubtful debts, while remaining USD10,191,000 have been written off directly to profit or loss.

(c) Other receivables

	The Group		The Company	
	2013	2012	**2013**	2012
	USD'000	USD'000	**USD'000**	USD'000
Amounts due from related parties (Note (i))	**522**	94	**–**	–
Prepayments and deposits (Note (ii))	**63,903**	64,598	**7**	–
VAT and other tax receivables (Note (iii))	**68,531**	83,071	**–**	–
Derivative financial instruments (Note (iv))	**700**	12,420	**700**	12,420
Amounts due from the GoM in relation to the termination of the Concession Agreement (Note 15 and (v))	**50,623**	–	**–**	–
Others (Note (vi))	**12,353**	17,841	**–**	–
	196,632	178,024	**707**	12,420

Note:

(i) *Amount due from related parties are unsecured, interest-free and have no fixed repayment terms (see Note 35(a)).*

(ii) *At 31 December 2013 and 2012, prepayments and deposits mainly represent the prepayments made to the Group's mining contractor and fuel supplier.*

(iii) *VAT and other tax receivables include amounts that have been accumulated to date in certain subsidiaries and were due from the GoM Taxation Authority. Based on current available information the Group anticipates full recoverability of such amounts. Further details are stated in Note 33(b).*

(iv) *It represented the embedded derivative in the senior notes (see Note 29).*

23 TRADE AND OTHER RECEIVABLES (continued)

(c) Other receivables (continued)

Note: (continued)

(v) It represented the compensation amount receivable from the GoM upon the termination of Concession Agreement of UHG-GS Railway, after taking into account the liabilities assumed by the GoM (see Note 15). The Group is negotiating with the GoM regarding the potential investment in a railway project of the GoM and the compensation amount could be converted into equity of a special purpose enterprise to be established by the GoM to implement the railway project and/or reimbursed.

(vi) At 31 December 2013, this item mainly represented the reimbursement receivables due from Erdenes MGL LLC of USD3.2 million (2012: USD3.5 million) and GoM of USD3.5 million (2012: USD4.5 million) for the construction costs in relation to the expansion project of the border crossing in Mongolian side at Gashuun Sukhait, which are interest-free. Subsequent to the balance sheet date, the reimbursement receivables were fully recovered in February 2014. The remaining other receivables mainly represent the receivable of USD5.7 million due from other companies.

All other receivables were aged within one year and expected to be recovered or expensed off within one year.

24 CASH AT BANK AND IN HAND

	The Group		The Company	
	2013	2012	**2013**	2012
	USD'000	USD'000	**USD'000**	USD'000
Cash in hand	**71**	92	**–**	–
Cash at bank	**76,464**	284,230	**519**	707
Cash at bank and in hand	**76,535**	284,322	**519**	707
Less:time deposits with original maturity over three months	**(50,000)**	(240,000)	**–**	–
Cash and cash equivalents in the consolidated cash flow statement	**26,535**	44,322	**519**	707

As at 31 December 2013, certain of the Group's borrowings were secured by the Group's cash at bank of USD20,066,894 (31 December 2012: USD9,690,000) (see Note 25).

25 BORROWINGS

(a) The Group's long-term interest-bearing borrowings comprise:

	The Group		The Company	
	2013	2012	**2013**	2012
	USD'000	USD'000	**USD'000**	USD'000
Bank loan (secured)	**255,455**	337,273	**130,000**	190,000
Less: Current portion of long-term borrowings	**(101,818)**	(81,818)	**(80,000)**	(60,000)
Less: Unamortised transaction costs	**(3,548)**	(6,342)	**(2,292)**	(4,232)
	150,089	249,113	**47,708**	125,768

As at 31 December 2013, the Group's long-term interest-bearing borrowings from European Bank for Reconstruction and Development, Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V., and Deutsche Investitions-und Entwicklungsgesellschaft mbH of USD92,727,000 (2012: USD103,636,000), USD19,637,000 (2012: USD26,182,000) and USD13,091,000 (2012: USD17,455,000), respectively, bearing interest of 6 months LIBOR + 3.25%~4.25%, were secured by the Group's property, plant and equipment (see Note 14) and cash at bank (see Note 24).

As at 31 December 2013, the Group's long-term interest-bearing borrowings from BNP Paribas of USD130,000,000 (2012: USD190,000,000) bearing interest of 3 months LIBOR + 5.25%, were secured by the Group's cash at bank (see Note 24) and inventories (see Note 22). The attributable transaction cost amounts to USD2,292,000. The BNP Paribas facility was initially contracted with Standard Bank Plc. On 18 December 2013, the Standard Bank Plc transferred all of its rights, title and interest in (and obligations under) the facility to BNP Paribas, Singapore Branch.

The Group's long-term borrowings are repayable as follows:

	The Group		The Company	
	2013	2012	**2013**	2012
	USD'000	USD'000	**USD'000**	USD'000
Within 1 year or on demand	**101,818**	81,818	**80,000**	60,000
After 1 year but within 2 years	**101,818**	101,818	**50,000**	80,000
After 2 years but within 5 years	**51,819**	153,637	**–**	50,000
	255,455	337,273	**130,000**	190,000

25 BORROWINGS (continued)

(b) The Group's short-term interest-bearing borrowings comprise:

	The Group		The Company	
	2013	2012	**2013**	2012
	USD'000	USD'000	**USD'000**	USD'000
Bank loans				
– Unsecured	**40,000**	–	**–**	–
Current portion of long-term borrowings				
– Bank loan	**101,818**	81,818	**80,000**	60,000
	141,818	81,818	**80,000**	60,000

The Group obtained USD40,000,000 short-term loan from Trade and Development Bank of Mongolia with an interest of 9.0% per annum.

Certain bank loans of the Group are subject to the fulfilment of covenants relating to certain of the Group's financial ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the draw down loan balances would become payable on demand. During the year ended 31 December 2013, the Group negotiated with the banks and was granted with revised covenants requirements from the banks. According to the revised covenants requirements, the Group did not breach any financial covenants in respect of loans during the year ended 31 December 2013.

26 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2013	2012	**2013**	2012
	USD'000	USD'000	**USD'000**	USD'000
Trade payables (Note (i))	**93,181**	45,718	**–**	–
Receipts in advance (Note (ii))	**20,603**	1,745	**–**	–
Amounts due to related parties (Note (iii))	**20,330**	14,109	**–**	–
Payables for purchase of equipment	**10,316**	38,706	**–**	–
Security deposit on construction work	**2,755**	2,223	**–**	–
Interest payable	**18,365**	15,271	**–**	–
Other taxes payables	**2,558**	4,152	**–**	–
Promissory notes (Note (iv))	**105,000**	105,000	**105,000**	105,000
Others (Note (v))	**14,843**	20,133	**17,476**	14,938
	287,951	247,057	**122,476**	119,938

26 TRADE AND OTHER PAYABLES (continued)

Note:

(i) *All trade payables are due and payable on presentation or within one month.*

(ii) *Receipts in advance represent payments in advance made by third party customers in accordance with the terms set out in respective sales agreements.*

(iii) *Amounts due to related parties represent management service fee payable and payables for equipment and construction work, which are unsecured, interest-free and have no fixed terms of repayments (see Note 35(a)).*

(iv) *On 27 November 2012, the Company issued two promissory notes to QGX Holdings Ltd., each in the amount of USD52,500,000, and shall bear interest at a rate of 3.0% per annum commencing on the issue date to the maturity date. The original maturity date was 22 November 2013. On 8 February 2013, an amendment agreement was signed by the Company and QGX Holdings Ltd. to extend the maturity date of two promissory notes from 22 November 2013 to 31 March 2014 and 31 December 2014, respectively.*

(v) *Others represent mainly accrued expenses, payables for staff related costs and other deposits.*

All of the other payables and receipts in advance are expected to be settled or recognised in profit or loss within one year or are repayable on demand.

27 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET

(a) Tax payable in the consolidated balance sheet represents:

	The Group	
	2013	2012
	USD'000	USD'000
At 1 January	**3,950**	17,508
Provision for the year (Note 7(a))	**8,477**	12,870
Offsetting with other tax receivables	**(3,648)**	(5,287)
Income tax paid	**(4,719)**	(21,527)
Exchange adjustments	**(634)**	386
At 31 December	**3,426**	3,950

27 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET (continued)

(b) Deferred tax assets and liabilities recognised

The components of deferred tax assets/(liabilities) recognised in the consolidated balance sheet and the movements during the year are as follows:

The Group

	Tax losses	Unrealised profits on intra-group transactions	Depreciation and amortisation	Unrealised foreign exchange differences on long-term borrowings	Allowance for doubtful debts	Fair value adjustments in relation to the Acquisition	Total
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Deferred tax arising from:							
At 1 January 2012	2,376	3,908	17	1,810	1,036	(149,105)	(139,958)
Credited/(charged) to profit or loss (Note 7(a))	12,529	(3,892)	789	(471)	446	286	9,687
Exchange adjustments	(262)	104	(18)	17	–	–	(159)
At 31 December 2012	14,643	120	788	1,356	1,482	(148,819)	(130,430)
At 1 January 2013	**14,643**	**120**	**788**	**1,356**	**1,482**	**(148,819)**	**(130,430)**
(Charged)/credited to profit or loss (Note 7(a))	**(3,106)**	**(688)**	**4,524**	**5,258**	**(121)**	**59**	**5,926**
Exchange adjustments	**(2,075)**	**36**	**(570)**	**(628)**	**(105)**	**–**	**(3,342)**
At 31 December 2013	**9,462**	**(532)**	**4,742**	**5,986**	**1,256**	**(148,760)**	**(127,846)**

	The Group	
	2013	2012
	USD'000	USD'000
Net deferred tax assets recognised in the consolidated balance sheet	**21,781**	19,144
Net deferred tax liabilities recognised in the consolidated balance sheet	**(149,627)**	(149,574)
	(127,846)	(130,430)

27 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET (continued)

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in Note 2(r), the Group has not recognised deferred tax assets in respect of cumulative tax losses of USD170,393,000 as at 31 December 2013 (2012: USD116,192,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. According to the new amendment to Mongolian Corporate Income Tax Law which is effective on 1 January 2010, for entities engaged in mining or infrastructure construction, the tax losses generated after 1 January 2010 will expire in four to eight years after the tax losses generated under current tax legislation. Tax losses of other entities will expire in two years after the tax losses generated.

Expiry of unrecognised tax losses of group entities located in Mongolia:

	The Group	
	2013	2012
	USD'000	USD'000
Year of expiry		
2014	**495**	3,361
2015	**5,296**	–
2016	**–**	27,454
	5,791	30,815

In relation to group entities located in the jurisdictions other than Mongolia, the tax losses amounting to USD164,602,000 as at 31 December 2013 do not expire under current tax legislations (31 December 2012: USD76,246,000).

(d) Deferred tax liabilities not recognised

At 31 December 2013, temporary differences relating to the undistributed profits of subsidiaries amounted to USD39,897,000 (2012: USD131,713,000). Deferred tax liabilities of USD7,979,000 (2012: USD26,343,000) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that profits will not be distributed in the foreseeable future.

28 CONVERTIBLE BOND

	The Group and the Company		
	Liability component	**Derivative component**	**Total**
	USD'000	USD'000	USD'000
At 1 January 2012	81,079	2,429	83,508
Interest charged during the year (Note 6(a))	6,766	–	6,766
Interest payable	(2,845)	–	(2,845)
Fair value adjustment (Note 6(a))	–	(2,429)	(2,429)
At 31 December 2012	85,000	–	85,000
At 1 January 2013	**85,000**	**–**	**85,000**
Interest charged during the year (Note 6(a))	**1,034**	**–**	**1,034**
Interest payable	**(1,034)**	**–**	**(1,034)**
Principal repaid amount	**(85,000)**	**–**	**(85,000)**
At 31 December 2013	**–**	**–**	**–**

On 1 June 2011, the Company issued the USD85,000,000 aggregate principal amount convertible bond ("convertible bond") to QGX Holdings Ltd. ("Bondholder"), related to the Acquisition.

The convertible bond bears interest at 2.0% per annum. If the Group's consolidated leverage ratio exceeds 5.5:1, the interest rate of the convertible bond shall increase to 4.0% per annum. The initial maturity date of the convertible bond is 1 December 2012 and shall be extended but no later than 21 months from 1 June 2011.

The convertible bond has been accounted for as a hybrid financial instrument containing both a derivative component and a liability component.

The convertible bond has been fully repaid on 22 April 2013.

29 SENIOR NOTES

	The Group and the Company USD'000
At 1 January 2012	–
Issuance of senior notes	604,920
Transaction costs	(13,213)
Interest charged during the year (Note 6(a))	41,417
Interest payable	(40,233)
At 31 December 2012	592,891
At 1 January 2013	**592,891**
Interest charged during the year (Note 6(a))	**54,688**
Interest payable	**(53,250)**
At 31 December 2013	**594,329**

On 29 March 2012, the Company issued guaranteed senior notes in the aggregate principal amount of USD600,000,000 which were on the Singapore Exchange Securities Trading Limited. The senior notes bear interest at 8.875% per annum, payable semi-annually in arrears, and will be due in 2017.

The senior notes may be redeemed at the option of the Company upon giving not less than 30 days or no more than 60 days notice to the holders.

The Company has agreed, for the benefit of the holders of the senior notes, to pledge all of the capital stock of Mongolian Coal Corporation Limited owned by the Company and to cause Mongolian Coal Corporation Limited to pledge all of the capital stock of Mongolian Coal Corporation S.a.r.l. owned by Mongolian Coal Corporation Limited. The senior notes are guaranteed by some of the Company's subsidiaries, namely Mongolian Coal Corporation Limited, Mongolian Coal Corporation S.a.r.l., Energy Resources Corporation LLC, Energy Resources LLC and Transgobi LLC.

The senior notes have been accounted for as a hybrid financial instrument containing both a derivative component and a liability component.

The derivative component was initially recognised at its fair value of USD4,920,000, and the attributable transaction cost of USD107,000 were charged to profit or loss for the year ended 31 December 2012. The fair value of the derivative component as at 31 December 2013 was USD700,000 (2012: USD12,420,000) which was presented as derivative financial instruments (see Note 23(c)(iv)).

The liability component was initially recognised at amortised cost of USD591,707,000, after taking into account attributable transaction costs of USD13,213,000.

Fair value of the derivative component was valued by the directors with the reference to a valuation report issued by an independent business valuer based on the Binomial model.

30 EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

The Company has a share option scheme ("Share Option Scheme") which was adopted on 17 September 2010 whereby the board of directors of the Group are authorised, at their discretion, invites eligible participants to receive options to subscribe for shares subject to the terms and conditions stipulated therein as incentives or rewards for their contributions to the Group.

Under the Share Option Scheme, the Company may grant options to employees and directors, suppliers, customers and professional advisers of the Group to subscribe for shares of the Company. The exercise price of the options is determined by the board of directors of the Company at the time of grant, and shall be the highest of the nominal value of the shares, the closing price of the shares at the date of grant and the average closing price of the shares for the five business days immediately preceding the date of grant. The Share Option Scheme remains in force for a period of 10 years commencing on its adoption date and will expire on 16 September 2020.

(a) The terms and conditions of the grants are as follows:

Grant Date	Number of options '000	Vesting conditions	Contractual life of options
12 October 2011	8,800	12 October 2011 to 12 October 2012	12 October 2011 to 12 October 2019
12 October 2011	8,800	12 October 2011 to 12 October 2013	12 October 2011 to 12 October 2019
12 October 2011	8,800	12 October 2011 to 12 October 2014	12 October 2011 to 12 October 2019
12 October 2011	8,800	12 October 2011 to 12 October 2015	12 October 2011 to 12 October 2019
28 November 2012	5,688	28 November 2012 to 28 November 2013	28 November 2012 to 28 November 2020
28 November 2012	5,688	28 November 2012 to 28 November 2014	28 November 2012 to 28 November 2020
28 November 2012	11,374	28 November 2012 to 28 November 2015	28 November 2012 to 28 November 2020
Total share options	57,950		

30 EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (continued)

(b) The movement of the number and weighted average exercise prices of share options are as follows:

	2013		2012	
	Weighted average exercise Price	Number of options	Weighted average exercise Price	Number of options
	HKD	'000	HKD	'000
Outstanding at 1 January	**5.56**	**56,650**	6.66	34,900
Granted during the year	**–**	**–**	3.92	22,750
Forfeited during the year	**6.66**	**(6,537)**	6.66	(1,000)
Outstanding at 31 December	**5.42**	**50,113**	5.56	56,650
Exercisable at 31 December	**5.89**	**20,125**	6.66	8,475

The options outstanding at 31 December 2013 had an exercise price of HKD6.66 or HKD3.92 (2012: HKD6.66 or HKD3.92) per share and a weighted average remaining contractual life of 6.3 years (2012: 7.2 years).

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on the Black-Scholes option pricing model. The variables of the models included expected life of the options, risk-free interest rate, expected volatility and expected dividend of the shares of the Company.

Fair value of share options and assumptions

	28 November 2012	12 October 2011
Fair value at measurement date	**HKD1.8155~ HKD2.0303**	HKD3.3793~ HKD3.7663
Share price	**HKD3.92**	HKD6.66
Exercise price	**HKD3.92**	HKD6.66
Expected life	**4.5-5.5 years**	4.5-6 years
Risk-free interest rate	**0.249%~0.298%**	0.755%~1.054%
Expected volatility	**57.71%~59.43%**	61.87%~63.43%
Expected dividends	**–**	–

30 EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (continued)

(c) Fair value of share options and assumptions (continued)

The expected volatility is based on the historic volatility of entities in the same industry (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on management's estimates. The risk-free interest rate is based on the yield of Hong Kong Exchange Fund Notes corresponding to the expected life of the options as at the grant date. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. The condition has not been taken into account in the grant date fair value measurement of the services received. There was no market condition associated with the share option grants.

31 PROVISIONS

	The Group	
	2013	2012
	USD'000	USD'000
Accrued reclamation obligations	**10,118**	15,538
Others	**1,500**	1,500
	11,618	17,038
Less: Current portion	**(1,500)**	(1,500)
	10,118	15,538

The accrual for reclamation costs has been determined based on management's best estimates. The estimate of the associated costs may be subject to change in the near term when the reclamation on the land from current mining activities becomes apparent in future periods. At the balance sheet date, the Group reassessed the estimated costs and adjusted the accrued reclamation obligations, where necessary. The Group's management believes that the accrued reclamation obligations at 31 December 2013 are adequate and appropriate. The accrual is based on estimates and therefore, the ultimate liability may exceed or be less than such estimates. The movement of the accrued reclamation cost is as follows:

	The Group	
	2013	2012
	USD'000	USD'000
At 1 January	**15,538**	11,110
Addition	**–**	3,430
Decrease for reassessment of estimated costs	**(3,631)**	–
Accretion expense (Note 6(a))	**1,163**	1,070
Exchange adjustments	**(2,952)**	(72)
At 31 December	**10,118**	15,538

Accrued reclamation costs decreased during the year ended 31 December 2013 result from the reassessment of estimated costs. Accrued reclamation costs increased during the year ended 31 December 2012 as the result of the reclamation obligations for BN Mine was accrued.

32 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Note	Share capital USD'000 (Note 32(c))	Share premium USD'000 (Note 32(d)(i))	Other reserve USD'000 (Note 32(d)(ii))	Accumulated losses USD'000	Total equity USD'000
Balance at 1 January 2012		37,050	608,650	1,646	(14,819)	632,527
Changes in equity for 2012:						
Total comprehensive income for the year		–	–	–	(61,414)	(61,414)
Equity-settled share-based transactions	30	–	–	6,620	–	6,620
Balance at 31 December 2012		37,050	608,650	8,266	(76,233)	577,733
Balance at 1 January 2013		**37,050**	**608,650**	**8,266**	**(76,233)**	**577,733**
Changes in equity for 2013:						
Total comprehensive income for the year		**–**	**–**	**–**	**(88,356)**	**(88,356)**
Equity-settled share-based transactions	30	**–**	**–**	**4,215**	**505**	**4,720**
Balance at 31 December 2013		**37,050**	**608,650**	**12,481**	**(164,084)**	**494,097**

(b) Dividends

The board of directors of the Company does not recommend the payment of a final dividend in respect of the year ended 31 December 2013.

(c) Share capital

The Company was incorporated on 18 May 2010 with an authorised share capital of USD50,000 comprising 5,000,000 ordinary shares of USD0.01 each. On 18 May 2010, MCS Mining Group Limited acquired its initial share of one share of USD0.01. By an ordinary resolution passed at the annual general meeting held on 23 August 2010, the Company's authorised ordinary share capital was increased to USD60,000,000 by the creation of an additional 5,995,000,000 ordinary shares of USD0.01 each, ranking pari passu with the existing ordinary shares of the Company in all respects.

The aggregate amount of share capital of the companies now comprising the Group, after elimination of interests in subsidiaries, was included in other reserve during the years ended 31 December 2013 and 2012 (Note 32(d)(ii)).

32 CAPITAL, RESERVES AND DIVIDENDS (continued)

(c) Share capital (continued)

The Company

	2013		2012	
	No of shares '000	**USD'000**	No of shares '000	USD'000
Authorised:				
Ordinary shares	**6,000,000**	**60,000**	6,000,000	60,000

Ordinary shares, issued and fully paid:

	At 31 December 2013		At 31 December 2012	
	No. of shares '000	**USD'000**	No. of shares '000	USD'000
Ordinary shares	**3,705,037**	**37,050**	3,705,037	37,050

(d) Nature and purpose of reserves

(i) Share premium

Under the Companies Law of the Cayman Islands, the share premium account of the Company may be applied for payment of distributions or dividends to shareholders provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company is able to pay its debts as they fall due in the ordinary courses of business.

(ii) Other reserve

The other reserve comprises the following:

– the aggregate amount of share capital and other reserves of the companies now comprising the Group after elimination of the investments in subsidiaries; and

– the portion of the grant date fair value of unexercised share options granted to directors and employees of the Company that has been recognised in accordance with the accounting policy adopted for share-based payments in Note 2(q)(ii).

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange adjustments arising from the translation of the MNT denominated financial statements of the Group's operations to the Group's presentation currency. The reserve is dealt with in accordance with the accounting policy set out in Note 2(v).

32 CAPITAL, RESERVES AND DIVIDENDS (continued)

(e) Distributability of reserves

Pursuant to the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and reserved) of the Cayman Islands, share premium of the Company is distributable to the shareholders. Other than the share premium, there is no other amount available for distribution to equity shareholders of the Company as at 31 December 2013.

(f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders. The Group defines the capital as total shareholders' equity plus loans and borrowings.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

The gearing ratio (calculated as total bank and other borrowings divided by total assets) of the Group as at 31 December 2013 was 46.7% (31 December 2012: 46.3%)

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Financial risk management objectives and policies

Management has adopted certain policies on financial risk management with the objective of:

(i) ensuring that appropriate funding strategies are adopted to meet the Group's short-term and long-term funding requirements taking into consideration the cost of funding, gearing levels and cash flow projections of each project and that of the Group; and

(ii) ensuring that appropriate strategies are also adopted to manage related interest and currency risk funding.

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(b) Credit risk

The Group's credit risk is primarily attributable to cash at bank, trade and other receivables. Management monitors the exposures to these credit risks on an ongoing basis.

Substantially all of the Group's cash at bank are deposited in the reputable banks which management assessed the credit risk to be insignificant.

Trade receivables are presented net of allowance for doubtful debts. In order to minimise the credit risk, the credit management committee, comprising the senior management team of the Group, has established a policy for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. The credit management committee also evaluates and reviews the credit quality and the recoverable amount of each individual trade debt on an ongoing basis. These evaluations and reviews focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group establishes an allowance for doubtful debts that represents its estimate of losses in respect of trade receivables. The components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets. At the balance sheet date, the Group believes that adequate allowance for doubtful debts has been made in the consolidated financial statements. In this regard, the directors consider that the Group's credit risk is significantly reduced. The Group does not hold any collateral as security for these receivables. The Group has a certain concentration credit risk as two customers accounted for 89.8% (2012: 71.0%) of the total trade receivables as at 31 December 2013.

The Group closely monitors the amount due from related parties.

VAT receivables include amounts that have been accumulated to date in various subsidiaries. According to the prevailing tax rules and regulations in Mongolia, a taxpayer may offset future taxes and royalties payable to the Government against VAT amounts receivable from the Government of Mongolia. In July 2009, the Mongolian Tax Laws were amended to preclude producers and exporters of unfinished mineral products from claiming back VAT and any VAT amounts impacted is prospective from the effective date of the law on 16 August 2009. On 10 November 2010, the Government defined finished mineral products as products which qualify for claiming back VAT. During the year ended 31 December 2013, the Group offset current income tax payable, withholding tax payable and royalty tax payable owing of USD664,000, USD1,865,000 and USD17,986,000, respectively, against its VAT receivable balance. Based on currently available information, the Group anticipates full recoverability of amounts due on account primarily relating to finished mineral products at 31 December 2013. Verification by the Mongolian Government Taxation Authority of the collectability of the funds is conducted on an annual basis and any outstanding VAT receivable amounts at 31 December 2013 will be available to the Group to offset future taxes and royalty tax or will be refunded by the Government of Mongolia Taxation Authority.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in Note 23.

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(c) Foreign currency exchange risk

The Group is exposed to currency risk primarily through sales, purchases and borrowings which give rise to receivables, payables, borrowings and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The functional currency of the Group's Mongolian entities is MNT and of the Group's overseas entities is USD. The currencies giving rise to this risk are primarily RMB, USD and HKD.

(i) Exposure to currency risk

The following table details the Group's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purpose, the amounts of the exposure are shown in USD, translated using the spot rate at the year end date.

The Group

	Exposure to foreign currencies (expressed in United States Dollars)					
	2013			2012		
	Renminbi	**United States Dollars**	**Hong Kong Dollars**	Renminbi	United States Dollars	Hong Kong Dollars
	USD'000	**USD'000**	**USD'000**	USD'000	USD'000	USD'000
Trade and other receivables	**115**	**79,271**	**–**	57	39,457	–
Cash at bank and in hand	**797**	**71,870**	**75**	8,244	273,708	425
Trade and other payables	**(9,025)**	**(34,340)**	**(359)**	(4,017)	(7,361)	(59)
Short-term borrowings and current portion of long-term borrowings	**–**	**(61,818)**	**–**	–	(21,818)	–
Long-term borrowings, less current portion	**–**	**(103,636)**	**–**	–	(125,455)	–
Net exposure arising from recognised assets and liabilities	**(8,113)**	**(48,653)**	**(284)**	4,284	158,531	366

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(c) Foreign currency exchange risk (continued)

(ii) Sensitivity analysis

An 5% strengthening/weakening of other currency against functional currencies defined in Note 2(v) as at the respective balance sheet dates would decrease/(increase) loss after taxation by the amount shown below. This analysis assumes that all other risk variables remained constant.

Loss/profit for the year	**2013 USD'000**	2012 USD'000
5% increase in RMB	**(304)**	461
5% decrease in RMB	**304**	(461)
5% increase in USD	**(1,708)**	19,606
5% decrease in USD	**1,708**	(19,606)
5% increase in HKD	**(10)**	24
5% decrease in HKD	**10**	(24)

(d) Interest rate risk

The Group's interest rate risk arises primarily from short-term borrowings, long-term borrowings and convertible bond. Borrowings issued at variable rates expose the Group to cash flow interest rate risk and fair value interest rate risk, respectively.

The following table details the profile of the Group's and the Company's net borrowings (interest-bearing financial liabilities less interest-bearing financial assets) at the balance sheet date. The detailed interest rates and maturity information of the Group's and the Company's borrowings are disclosed in Note 25.

	The Group		**The Company**	
	2013 USD'000	2012 USD'000	**2013 USD'000**	2012 USD'000
Net fixed rate borrowings:				
Borrowings	**40,000**	–	**–**	–
Obligations under finance lease	**90**	323	**–**	–
Convertible bond	**–**	85,000	**–**	85,000
Senior notes	**594,329**	592,891	**594,329**	592,891
Promissory notes	**105,000**	105,000	**105,000**	105,000
Less: Bank deposits (including pledged deposits)	**(50,000)**	(240,000)	**–**	–
	689,419	543,214	**699,329**	782,891
Net floating rate borrowings:				
Borrowings	**251,907**	330,931	**127,708**	185,768
Less: Bank deposits (including pledged deposits)	**(26,464)**	(44,322)	**(519)**	(707)
	225,443	286,609	**127,189**	185,061
Total net borrowings:	**914,862**	829,823	**826,518**	967,952

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(d) Interest rate risk (continued)

At 31 December 2013, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have increased/decreased the Group's loss after taxation and decreased/increased retained earnings by approximately USD2,003,000 (31 December 2012: USD2,606,000).

The sensitivity analysis above indicates the instantaneous change in the Group's loss after tax that would arise assuming that the change in interest rates had occurred at the balance sheet date and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the balance sheet date. In respect of the expose to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the balance sheet date, the impact on the Group's loss after tax and retained profits and other components of consolidated equity is estimated as an annualised impact on interest expense or income of such a change in interest rates.

(e) Liquidity risk

The Group has to maintain a suitable level of liquidity to finance the daily operation, capital expenditure and repayment of borrowings. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the balance sheet date of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group can be required to pay:

The Group

	2013 Contractual undiscounted cash outflow					
	Within 1 year USD'000	After 1 year but within 2 years USD'000	After 2 years but within 5 years USD'000	After 5 years USD'000	Total contractual undiscounted cash flow USD'000	Balance sheet carrying amount USD'000
Borrowings (Note 25)	152,143	105,382	52,554	–	310,079	291,907
Trade and other payables (Note 26)	289,909	–	–	–	289,909	287,951
Senior notes (Note 29)	53,250	53,250	679,875	–	786,375	594,329
	495,302	158,632	732,429	–	1,386,363	1,174,187

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(e) Liquidity risk (continued)

	2012 Contractual undiscounted cash outflow					
	Within 1 year USD'000	After 1 year but within 2 years USD'000	After 2 years but within 5 years USD'000	After 5 years USD'000	Total contractual undiscounted cash flow USD'000	Balance sheet carrying amount USD'000
Borrowings (Note 25)	97,099	112,144	157,935	–	367,178	330,931
Trade and other payables (Note 26)	247,057	–	–	–	247,057	247,057
Convertible bond (Note 28)	85,550	–	–	–	85,550	85,000
Senior notes (Note 29)	53,250	53,250	733,125	–	839,625	592,891
	482,956	165,394	891,060	–	1,539,410	1,255,879

The Company

	2013 Contractual undiscounted cash outflow					
	within 1 year USD'000	**After 1 year but within 2 years USD'000**	**After 2 years but within 5 years USD'000**	**After 5 years USD'000**	**Total contractual undiscounted cash flow USD'000**	**Balance sheet carrying amount USD'000**
Borrowings (Note 25)	**85,627**	**50,517**	**–**	**–**	**136,144**	**127,708**
Trade and other payables (Note 26)	**124,433**	**–**	**–**	**–**	**124,433**	**122,476**
Senior notes (Note 29)	**53,250**	**53,250**	**679,875**	**–**	**786,375**	**594,329**
	263,310	**103,767**	**679,875**	**–**	**1,046,952**	**844,513**

	2012 Contractual undiscounted cash outflow					
	within 1 year USD'000	After 1 year but within 2 years USD'000	After 2 years but within 5 years USD'000	After 5 years USD'000	Total contractual undiscounted cash flow USD'000	Balance sheet carrying amount USD'000
Borrowings (Note 25)	69,713	85,627	50,517	–	205,857	185,768
Trade and other payables (Note 26)	119,938	–	–	–	119,938	119,938
Convertible bond (Note 28)	85,550	–	–	–	85,550	85,000
Senior notes (Note 29)	53,250	53,250	733,125	–	839,625	592,891
	328,451	138,877	783,642	–	1,250,970	983,597

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(f) Fair value measurement

(i) Financial assets and liabilities measured at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the balance sheet date on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

Fair value of the Group's financial instruments, including redemption option embedded in senior notes and conversion option embedded in convertible notes which is categorised into Level 3 of the fair value hierarchy was valued by the directors with the reference to a valuation report issued by an independent business valuer.

	Fair value at 31 December 2013	Fair value measurements as at 31 December 2013 categorised into		
		Level 1	Level 2	Level 3
	USD'000	USD'000	USD'000	USD'000
Recurring fair value measurement				
Assets				
Derivative financial instruments:				
– Redemption option embedded in senior notes	700	–	–	700

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(f) Fair value measurement (continued)

(i) Financial assets and liabilities measured at fair value (continued)

	Fair value at 31 December 2012 USD'000	Fair value measurements as at 31 December 2012 categorised into Level 1 USD'000	Level 2 USD'000	Level 3 USD'000
Recurring fair value measurement				
Assets				
Derivative financial instruments:				
– Redemption option embedded in senior notes	12,420	–	–	12,420

During the year ended 31 December 2012 and 2013, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the balance sheet date in which they occur.

Information about Level 3 fair value measurements

	Valuation techniques	Significant unobservable inputs	Expected volatility
Redemption option embedded in senior notes	Binomial model	Expected volatility	38%

The fair value of redemption option embedded in senior notes is determined using binomial model and the significant unobservable input used in the fair value measurement is expected volatility. The fair value measurement is positively correlated to the expected volatility. As at 31 December 2013, it is estimated that with all other variables held constant, an increase/decrease in the expected volatility by 1% would have decreased/increased the Group's loss by USD100,000.

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(f) Fair value measurement (continued)

(i) Financial assets and liabilities measured at fair value (continued)

The movement during the period in the balance of Level 3 fair value measurements is as follows:

	2013	2012
	USD'000	USD'000
Redemption option embedded in senior notes:		
At 1 January	**12,420**	–
Issuance of senior notes	**–**	4,920
Changes in fair value recognised in profit or loss during the period	**(11,720)**	7,500
At 31 December	**700**	12,420

	2013	2012
	USD'000	USD'000
Conversion option embedded in convertible bond:		
At 1 January	**–**	2,429
Changes in fair value recognised in profit or loss during the period	**–**	(2,429)
At 31 December	**–**	–

The changes in fair value arising from the remeasurement of the redemption option and conversion option embedded in senior notes and convertible bond respectively are presented in "finance cost/income" in the consolidated statement of comprehensive income.

(ii) Fair value of financial assets and liabilities carried at other than fair value

In respect of cash and cash equivalents, trade and other receivables, and trade and other payables, the carrying amounts approximate fair value due to the relatively short-term nature of these financial instruments.

In respect of borrowings, the carrying amounts are not materially different from their fair values as at 31 December 2013. The fair values of borrowings are estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

The aggregate carrying values of other financial liabilities carried on the consolidated balance sheet are not materially different from their fair values as at 31 December 2013.

34 COMMITMENTS AND CONTINGENCIES

(a) Capital commitments

Capital commitments outstanding at respective balance sheet dates not provided for in the financial statements were as follows:

	2013	2012
	USD'000	USD'000
Contracted for	**5,554**	35,409
Authorised but not contracted for	**681**	69,427
	6,235	104,836

(b) Operating lease commitments

(i) At 31 December 2013, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2013	2012
	USD'000	USD'000
Within 1 year	**1,601**	2,823
After 1 year but within 5 years	**519**	1,593
	2,120	4,416

(ii) The Group leases certain buildings through operating leases. These operating leases do not contain provisions for contingent lease rentals. None of the agreements contain escalation provisions that may require higher future rental payments.

(c) Environmental contingencies

Historically, the Group has not incurred any significant expenditure for environmental remediation. Further, except for the accrued reclamation obligations as disclosed in Note 31 and amounts incurred pursuant to the environment compliance protection and precautionary measures in Mongolia, the Group has not incurred any other significant expenditure for environmental remediation, is currently not involved in any other environmental remediation, and has not accrued any other amounts for environmental remediation relating to its operations. Under existing legislation, the directors believe that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. Environmental liabilities are subject to considerable uncertainties which affect the Group's ability to estimate the ultimate cost of remediation efforts. The outcome of environmental liabilities under future environmental legislations cannot be estimated reasonably at present and which could be material.

34 COMMITMENTS AND CONTINGENCIES (continued)

(d) Contingency in respect of tax dispute

The Group received two decisions (the "Decisions"), dated 26 December 2012, made by the state customs inspectors of the General Customs Office of Mongolia regarding the results of the post-clearance audit made in relation to import activities for construction of coal handling and preparation plant module I and II. The Group was claimed for additional customs duties of MNT1,981,163,492 (approximately USD1,197,729), VAT of MNT4,160,443,332 (approximately USD2,515,231) and related penalty of MNT1,842,482,047 (approximately USD1,113,888). The Group does not agree with the Decisions and commenced a defense action against the Decisions in the Capital Administrative Court of Mongolia.

The first instance court decisions are anticipated to be available in the third quarter of 2014. The Group believes that it has legal grounds not to agree with the Decisions and will provide all reasonable arguments in order to have issued rulings of the Court in the favor of the Group. However, it is difficult to estimate the outcome of the litigation at this early stage.

If the Group were to found liable to the claim, based upon final court's decision, the under-paid customs duties and VAT would result in an increase in the cost of the Group's property, plant and equipment and the penalty would be charged to the Group's profit or loss.

(e) Contingency in respect a claim filed by the Lawyer's Association for Environment

On 8 August 2013, the first instance district court ruled the Group to pay MNT52,235,485,740 (approximately USD31,579,400) in relation with the claim issued by the Lawyer's Association for Environment ("LAE") on 28 March 2013 regarding allegations in relation to possible damages to the environment due to coal hauling operation.

The Group disagreed with the court decision and submitted its appeal. An appeal court hearing was held on 11 December 2013 and decided to dismiss previous decisions made by the first instance court and therefore to transfer the case for rehearing by the first instance district court.

The rehearing of first instance court is anticipated to be held within the second quarter of 2014. The Group is taking necessary preparation for the rehearing of first instance court, and it is difficult to predict the final outcome. If the Group were to be found liable to the claim, the claimed amount would be charged to the Group's profit or loss.

35 MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

Related parties refer to enterprises over which the Group is able to exercise significant influence or control during the year. During the year, the Group entered into transactions with the following related parties.

Name of party	Relationship
MCS (Mongolia) Limited ("**MCS Mongolia**")	Shareholder
MCS Holding LLC ("**MCS**")	Subsidiary of MCS Mongolia
Uniservice Solution LLC ("**Uniservice Solution**")	Subsidiary of MCS Mongolia
MCS Property LLC ("**MCS Property**")	Subsidiary of MCS Mongolia
MCS Electronics LLC ("**MCS Electronics**")	Subsidiary of MCS Mongolia
MCS International LLC ("**MCS International**")	Subsidiary of MCS Mongolia

Particulars of significant transactions between the Group and the above related parties during the year ended 31 December 2013 are as follows:

	2013 **USD'000**	2012 USD'000
Ancillary services (Note (i))	**23,555**	24,326
Purchases of equipment and construction work (Note (ii))	**3,760**	26,006
Sales of property, plant and equipment (Note (iii))	**826**	96
Lease of property, plant and equipment (Note (iv))	**966**	1,203
Finance lease of equipment (Note (v))	**101**	223

(i) Ancillary services represent expenditures for support services such as consultancy, cleaning and canteen expense paid to Uniservice Solution, MCS and its affiliates. The service charges are based on comparable or prevailing market rates, were applicable.

(ii) Purchases of equipment and construction work represent expenditure relating to equipment and construction service provided by MCS Electronics, MCS Property, MCS International, MCS and its affiliates. The purchases are carried out at comparable or prevailing market rates, where applicable.

(iii) Sales of property, plant and equipment represent sale to MCS International. The sales are carried out at comparable or prevailing market rates, where applicable.

(iv) Lease of property, plant and equipment represents rental paid or payable in respect of properties and office equipment leased from MCS Electronics, MCS and its affiliates. The rental charges are based on comparable or prevailing market rates, where applicable.

35 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with related parties (continued)

(v) Finance leases of equipment represent expenditure relating to the lease of equipment from MCS Electronics through finance lease. The rental charges are based on comparable or prevailing market rates, where applicable.

The directors of the Company are of the opinion that the above transactions were conducted in the ordinary course of business, on normal commercial terms and in accordance with the agreements governing such transactions.

Amounts due from/(to) related parties

	2013 USD'000	2012 USD'000
Other receivables (Note 23(c)(i))	**522**	94
Other accruals and payables (Note 26(iii))	**(20,330)**	(14,109)

(b) Key management personnel remuneration

Key management personnel are those persons holding positions with authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including the Group's directors.

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in Note 9, and certain of the highest paid employees as disclosed in Note 10, is as follows:

	2013 USD'000	2012 USD'000
Salaries and other emoluments	**1,723**	1,521
Discretionary bonus	**825**	1,097
Retirement scheme contributions	**130**	133
Equity-settled share-based payment expenses	**4,277**	3,574
	6,955	6,325

(c) Applicability of the Listing Rules relating to connected transactions

Certain related party transactions in respect of (a) above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in section headed "Connected transactions and continuing connected transactions" of the Directors' Report.

36 ULTIMATE CONTROLLING PARTY

As at 31 December 2013, the directors consider the ultimate controlling party of the Group to be MCS (Mongolia) Limited, which was incorporated in British Virgin Islands. This entity does not produce financial statements available for public use.

37 MAJOR NON-CASH TRANSACTIONS

According to the relevant tax regulations in Mongolia, the income tax payable can be offset by the VAT receivables. During the year ended 31 December 2013, the Group offset the VAT receivables of USD664,000 (2012: USD5,287,000), USD1,865,000 (2012: nil) and USD17,986,000 (2012: USD10,154,000) with income tax payable, withholding tax payable and royalty tax payable, respectively.

During the year ended 31 December 2012, the Group issued promissory notes (see Note 26(iv)) to acquire additional mining right.

38 SUBSEQUENT EVENTS AFTER THE BALANCE SHEET DATE

On 13 February 2014, Energy Resources LLC, the operating arm of the Group, pursuant to the Agreement (see Note 21) received payment of MNT157,847,184,615 (equivalent to approximately USD90,323,295 at exchange rate on the payment receipt date) and the rights and duties of the parties under the Agreement became enforceable.

On 5 March 2014, the Company has entered into a facilities agreement (the "Facilities Agreement") with banks. The Facilities Agreement provides a coal pre-export loan facility of USD150,000,000 with a greenshoe option of up to USD50,000,000 to the Company. According to the Facilities Agreement, the purpose of the facilities is to refinance the existing term loan of USD200,000,000 with the outstanding balance of USD130,000,000, and the remaining balance of the facilities allows the Company to extend maturity of funding facilities, and to finance general working capital and capital expenditure requirements of the Company. The facilities shall be repaid by the Company in instalments with the last repayment date falling on the earlier of thirty-third month from the first drawdown date of the Facilities Agreement and 1 December 2016.

39 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2013

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2013 and which have not been adopted in these financial statements. These included the following which may be relevant to the Group's operations and financial statements.

	Effective for accounting periods beginning on or after
Amendments to IFRS 10, IFRS 12 and IAS 27, *Investment entities*	1 January 2014
IFRIC 21, *Levies*	1 January 2014
Amendments to IAS 32, *Financial instruments: Presentation – Offsetting financial assets and financial liabilities*	1 January 2014
IFRS 9, *Financial instruments*	1 January 2015
Amendments to IFRS 9, *Financial instruments and IFRS 7 Financial instruments: Disclosures – Mandatory effective date and transition disclosures*	1 January 2015

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

SUMMARY DATA OF CONDENSED CONSOLIDATED INCOME STATEMENTS

	2013 USD'000	2012 USD'000	2011 USD'000	2010 USD'000	2009 USD'000
Revenue	**437,339**	474,480	542,568	277,502	66,983
Cost of revenue	**(361,485)**	(420,400)	(336,368)	(164,368)	(38,682)
Gross profit	**75,854**	54,080	206,200	113,134	28,301
Other revenue	**592**	1,121	435	511	70
Other net income/(expense)	**7,073**	5,418	76	(187)	(35)
Administrative expenses	**(52,410)**	(48,183)	(60,303)	(38,685)	(10,427)
Profit/(loss) from operations	**31,109**	12,436	146,408	74,773	17,909
Finance income	**9,551**	39,561	22,236	12,335	342
Finance costs	**(95,095)**	(50,994)	(13,785)	(4,214)	(3,860)
Share of profits/(losses) of associate	**(1,087)**	(362)	(119)	2	(10)
(Loss)/profit before taxation	**(55,522)**	641	154,740	82,896	14,381
Income tax	**(2,551)**	(3,183)	(35,650)	(22,757)	(4,111)
(Loss)/profit attributable to the equity shareholders of the Company	**(58,073)**	(2,542)	119,090	60,139	10,270
Basic (loss)/earnings per share	**(1.57) cents**	(0.07) cents	3.21 cents	1.91 cents	0.34 cents
Diluted (loss)/earnings per share	**(1.57) cents**	(0.07) cents	3.07 cents	1.91 cents	0.34 cents

SUMMARY DATA OF CONDENSED CONSOLIDATED BALANCE SHEETS

	2013 USD'000	2012 USD'000	2011 USD'000	2010 USD'000	2009 USD'000
Assets and liabilities					
Total assets	**1,898,870**	2,177,277	1,628,016	1,053,270	113,230
Total liabilities	**1,337,903**	1,425,264	859,152	325,989	69,389
Net assets	**560,967**	752,013	768,864	727,281	43,841
Equity attributable to equity shareholders of the Company	**560,967**	752,013	768,864	727,281	43,841

Glossary and Technical Terms

"Adoption date"	13 October 2010, the date the Share Option Scheme was adopted and became effective
"AGM"	Annual general meeting
"aimag"	The highest level of Mongolian administrative subdivision (essentially equivalent to a province), of which there are 21 in Mongolia
"ASP"	Average selling price
"BAP"	Biodiversity Action Plan
"bcm"	Bank cubic metre
"BFP"	Belt Filter Press
"BN"	Baruun Naran
"BN deposit"	BN coal deposit located in the TT formation
"BN mine"	The area of the BN deposit that can be mined by open pit mining methods
"Board"	The Board of Directors of the Company
"BOT" or "Build-Operate-Transfer"	A type of contract arrangement in which a private sector entity builds an infrastructure project, operates it and eventually transfers ownership of the project to the government
"CAGR"	compound annual growth rate
"CCTs"	Continuing connected transactions
"CG Code"	The Corporate Governance Code
"CHPP"	Coal handling and preparation plant
"CI"	Community Investment
"coke"	Bituminous coal from which the volatile components have been removed

"coking coal"	Coal used in the process of manufacturing steel. It is also known as metallurgical coal
"Company", "our Company", "Group", "our Group", "we "us", "our" or "Mongolian Mining Corporation"	Mongolian Mining Corporation, a company incorporated in the Cayman Islands with limited liability on 18 May 2010 and except where the context indicates otherwise (i) our subsidiaries; and (ii) with respect to the period before our Company became the holding company of our present subsidiaries, the business operated by our present subsidiaries or (as the case may be) their predecessors
"Controlling Shareholders"	MCS Mining Group Limited, MCS (Mongolia) Limited, Novel Holdings Group Limited, Trimunkh Limited, Mr. Odjargal Jambaljamts, Mr. Od Jambaljamts, Ms. Batmunkh Dashdeleg and Ms. Munkhsuren Surenkhuu
"Convertible Bond"	USD85,000,000 aggregate principal amount convertible bond issued by the Company to QGX Holdings Ltd.
"CSR"	Corporate social responsibility
"DAP"	Delivery at place
"Deed of Non-competition"	Pursuant to a deed of non-competition dated 20 September 2010, and as amended on 3 April 2012 and 4 July 2012 executed by Mr. Odjargal Jambaljamts, Mr. Od Jambaljamts, MCS Mining Group Limited and MCS (Mongolia) Limited
"Director(s)"	Director(s) of the Company
"DP"	Democratic Party
"EBITDA"	Earnings Before Interest, Taxes, Depreciation and Amortization and other non-cash and one-off costs
"EIFR"	Environmental incident frequency rate
"EITI"	Extractive Industry Transparency Initiative
"EPCM"	Engineering, Procurement, Construction and Management, a form of contract where the contractor will design and install the equipment, procure and install the necessary materials, and be responsible of managing the process of the installation
"ESIA"	Environmental and Social Impact Assessments
"Fexos"	Fexos Limited

Glossary and Technical Terms

"Ganqimaodu" or "GM"	The China side of the China-Mongolia border crossing
"Gashuun Sukhait" or "GS"	The Mongolia side of the China-Mongolia border crossing
"Ger"	A ger is a portable, felt-covered, wood lattice-framed dwelling structure traditionally used by nomads. A ger is more home-like in shape and build, with thicker walls than that of a tent
"GoM"	Government of Mongolia
"Group"	The Company and its subsidiaries
"Guiding Principles"	The Guiding Principles for Business and Human Rights endorsed by the United Nations
"HCC"	Hard coking coal
"HKD"	Hong Kong Dollar
"HR"	Human Resources
"HSE"	Health, safety and environment
"IASs"	International Accounting Standards
"IASB"	International Accounting Standards Board
"IFC"	International Finance Corporation
"IFRSs"	International Financial Reporting Standards
"ILO"	International Labour Organisation
"JORC"	Joint Ore Reserves Committee of The Australian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia
"KAM"	Kerry Asset Management Limited
"KGL"	Kerry Group Limited
"KHL"	Kerry Holdings Limited

"km"	kilometre
"KMM"	Kerry Mining (Mongolia) Limited
"KMUHG"	Kerry Mining (UHG) Limited
"KPI"	key performance indicator
"kV"	kilo volts
"kVA"	kilo volt-amperes
"LAE"	Lawyer's Association for Environment
"Listing Date"	13 October 2010
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange
"LOM"	Life-of-Mine
"LTIFR"	Lost Time Injury Frequency Rate
"LTIs"	Lost Time Injuries
"Mbcm"	million bank cubic metres
"MCS Group"	MCS Holding LLC, an associate of MCS Mining Group Limited (a controlling shareholder of the Company) and its subsidiaries
"middlings"	Washed thermal coal
"mineral resource"	A concentration or occurrence of material of intrinsic economic interest in or on the earth's crust in such form, quality and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, quality, geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral resources are sub-divided, in order of increasing geological confidence, into inferred, indicated and measured categories
"mining rights"	The rights to mine mineral resources and obtain mineral products in areas where mining activities are licensed
"MNT"	Togrog or tugrik, the lawful currency of Mongolia

Glossary and Technical Terms

"Model Code"	The Model Code for Securities Transactions by Directors of Listed Issuers
"Mt"	Million tonnes
"Mtpa"	Million tonnes per annum
"NBS"	National Bureau of Statistics
"NGOs"	Non-governmental organisations
"Offer Date"	12 October 2011 and 28 November 2012, the dates of offer of a total of 37,500,000 and 22,750,000 Share Options, respectively, to its Chief Executive Officer and certain employees under the Share Option Scheme adopted by the Company
"OHS"	Occupational health and safety
"OHSAS"	Occupational Health and Safety Assessment Series
"open-pit"	The main type of mine designed to extract minerals close to the surface; also known as "open cut"
"ore"	A naturally occurring solid material from which a metal or valuable mineral can be extracted profitably
"PCDP"	Public Consultation and Disclosure Plan
"probable reserve"	The economically mineable part of an indicated and, in some circumstances, a measured mineral resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified
"raw coal"	Generally means coal that has not been washed and processed
"RMB"	Renminbi
"ROM"	Run-of-mine, the as-mined material during room and pillar mining operations as it leaves the mine site (mined glauberite ore and out-of-seam dilution material)
"RPM"	RungePincockMinarco Limited

"SD"	Sustainable Development
"seam"	A stratum or bed of coal or other mineral; generally applied to large deposits of coal
"SEFIL"	Law on Regulation of Foreign Investment Business Entities Operating in Sectors of Strategic Importance
"SEHK" or "Stock Exchange"	The Stock Exchange of Hong Kong Limited
"SFO"	Securities and Futures Ordinance
"share(s)"	Ordinary share(s) of USD0.01 each in the share capital of the Company
"Share Options"	The share options which were granted under the Share Option Scheme to eligible participants to subscribe for Shares of the Company
"Share Option Scheme"	A share option scheme which was adopted by the Company on 17 September 2010
"Share Purchase Agreement"	Share purchase agreement entered into by the Company and its subsidiary Mongolian Coal Corporation Limited with Quincunx (BVI) Ltd and Kerry Mining (Mongolia) Limited on 31 May 2011 in relation to the acquisition of the entire issued share capital of QGX Coal Ltd
"soum"	The second level of Mongolian administrative subdivisions (essentially equivalent to a sub-province)
"SRK"	SRK Consulting
"SSCC"	Semi-soft coking coal
"strip ratio" or "stripping ratio"	The ratio of the amount of waste removed (in bank cubic metres) to the amount of coal or minerals (in tonnes) extracted by open-pit mining methods
"Tavan Tolgoi"	The coal formation located in South Gobi, Mongolia which includes our UHG deposit
"the Articles"	The Articles of Association of the Company
"the Code"	the Company's Code of Conduct

Glossary and Technical Terms

"the Schemes"	The Group participates in defined contribution retirement benefit schemes
"thermal coal"	Also referred to as "steam coal" or "steaming coal," thermal coal is used in combustion processes by power producers and industrial users to produce steam for power and heat. Thermal coal tends not to have the carbonisation properties possessed by coking coals and generally has lower heat value and higher volatility than coking coal
"THG"	Tsaihkar Khudag
"TKH"	Tsagaan Khad
"tonne"	Metric ton
"Tsetsii Town"	A residential town in Tsogttsetsii soum
"TSF"	tailings storage facility
"Tsogttsetsii"	Tsogttsetsii soum is the location where Tavan Tolgoi sits
"UHG"	Ukhaa Khudag
"UHG deposit"	Ukhaa Khudag deposit located in the Tavan Tolgoi coalfield which includes both aboveground (<300m) and underground (>300m) deposits
"UHG-GS Road"	paved road between UHG and the GS border crossing
"UHG mine"	The aboveground (<300m) portion of our UHG deposit
"UN"	United Nations
"USD"	United States Dollar
"VAT"	Value added tax
"washed coal"	Coals that have been washed and processed to reduce its ash content
"WSA"	World Steel Association

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CORPORATION

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