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## THIS PROSPECTUS IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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If you are in doubt as to any aspect of this Prospectus or as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional advisers.

If you have sold or transferred all your securities in Mongolian Mining Corporation (the "Company"), you should at once hand the Rights Issue Documents (as defined herein) to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee. The Rights Issue Documents should not, however, be distributed, forwarded to or transmitted to, into or from any jurisdiction where to do so might constitute a violation of local securities laws or regulations.

A copy of each of the Rights Issue Documents, together with the documents specified in the paragraph headed "Documents delivered to the Registrars of Companies" in Appendix III to this Prospectus has been registered with the Registrar of Companies in Hong Kong pursuant to Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility for the contents of any of the Rights Issue Documents. Dealings in the securities of the Company and the Rights Shares (as defined herein) in their nil-paid form and fully-paid form may be settled through CCASS and you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional advisers for details of the settlement arrangements and how such arrangements may affect your rights and interests.

Subject to the granting of the listing of, and the permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms on the Stock Exchange as well as compliance with the stock admission requirements of HKSCC, the Rights Shares in both their nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the respective commencement dates of dealings in the Rights Shares in each of their nil-paid and fully-paid forms on the Stock Exchange or such other dates as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

This Prospectus is for information purposes only and shall not constitute an offer to sell or the solicitation of an offer to buy any securities, nor shall there be any sale or purchase of securities in any jurisdiction in which such offer, solicitation or sale would be unlawful. The securities have not been registered under the US Securities Act or the laws of any state in the United States, and may not be offered, sold or otherwise transferred within the United States absent registration or an exemption from the registration requirements of the US Securities Act and applicable state laws. There is no intention to register any portion of the Rights Shares or any securities described in this Prospectus in the United States or to conduct a public offering of securities in the United States. This Prospectus may not be forwarded or distributed to any address in the United States. Failure to comply with this directive may result in a violation of the US Securities Act.

Hong Kong Exchanges and Clearing Limited, the Stock Exchange and HKSCC take no responsibility for the contents of the Rights Issue Documents, make no representation as to their accuracy or completeness and expressly disclaim any liability whatsoever for any loss whatsoever arising from or in reliance upon the whole or any part of the contents of the Rights Issue Documents.

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## MONGOLIAN MINING CORPORATION

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

**(Stock Code: 975)**

### PROPOSED RIGHTS ISSUE ON THE BASIS OF THREE RIGHTS SHARES FOR EVERY TWO EXISTING SHARES HELD ON THE RECORD DATE AT HK\$0.28 PER RIGHTS SHARE

**Joint Underwriters of the Rights Issue (in alphabetical order)**



**BNP PARIBAS**  
CORPORATE & INVESTMENT BANKING

**J.P.Morgan**

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Capitalised terms used in this cover page shall have the same meanings as those defined in this Prospectus.

The Shares have been dealt in on an ex-rights basis from 26 November 2014. Dealings in the Rights Shares in nil-paid form will take place from 5 December 2014 to 12 December 2014 (both days inclusive). If the conditions of the Rights Issue are not fulfilled or waived (where applicable) or the Underwriting Agreement is terminated by the Underwriter, the Rights Issue will not proceed. Any Shareholders or other persons dealing in nil-paid Rights Shares during the period from 5 December 2014 to 12 December 2014 (both days inclusive) will accordingly bear the risk that the Rights Issue may not become unconditional or may not proceed.

Shareholders and potential investors of the Company should note that the Rights Issue is conditional upon, among other things, the fulfillment or waiver (where applicable) of the conditions set out under the sub-paragraph headed "Conditions of the Rights Issue" on pages 59 to 61 of this Prospectus. The Underwriter is entitled under the Underwriting Agreement to terminate the Underwriting Agreement on the occurrence of certain events as set out in the section headed "Termination of the Underwriting Agreement" on pages 10 to 13 of this Prospectus. Accordingly, the Rights Issue may or may not proceed.

3 December 2014

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## NOTICE

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The Rights Issue is conditional upon the Underwriting Agreement becoming unconditional and not terminated in accordance with its terms. If the conditions of the Rights Issue as set out under the section headed “Letter from the Board – Underwriting Agreements – Conditions of the Rights Issue” of this Prospectus are not fulfilled or waived (as applicable), the Rights Issue will not proceed, in which case, a further announcement will be made by the Company at the relevant time. It should be noted that the existing Shares have been dealt in on an ex-rights basis since 26 November 2014, and nil-paid Rights Shares will be dealt in from 9:00 a.m. on Friday, 5 December 2014 to 4:00 p.m. on Friday, 12 December 2014 (both days inclusive). Such dealings will take place when the conditions of the Rights Issue remain unfulfilled. Any person dealing in the securities of the Company up to the date on which such conditions are fulfilled or waived (as applicable) and any person dealing in nil-paid Rights Shares from 9:00 a.m. on Friday, 5 December 2014 to 4:00 p.m. on Friday, 12 December 2014 (being the first and last day of dealings in nil-paid Rights Shares, respectively) will accordingly bear the risk that the Rights Issue may not become unconditional and may not proceed. Shareholders and potential investors should therefore exercise caution when dealing in the Shares and/or nil-paid Rights Shares, and if they are in any doubt about their position, they are recommended to consult their professional advisers.

**EXCEPT AS OTHERWISE SET OUT IN THIS PROSPECTUS, THE RIGHTS ISSUE DESCRIBED IN THIS PROSPECTUS IS NOT BEING EXTENDED TO SHAREHOLDERS WITH ADDRESSES IN, OR INVESTORS WHO ARE LOCATED OR RESIDENT IN, ANY OF THE SPECIFIED TERRITORIES.** This Prospectus does not constitute or form part of any offer or invitation to sell or issue, or any solicitation of any offer to acquire, nil-paid Rights Shares or the Rights Shares or to take up any entitlements to nil-paid Rights Shares or the Rights Shares in any jurisdiction in which such an offer or solicitation is unlawful. None of the nil-paid Rights Shares, the Rights Shares, this Prospectus, the PAL and the EAF will be registered under the securities laws of any jurisdictions outside Hong Kong (other than pursuant to any applicable exceptions as agreed by the Company). Accordingly, nil-paid Rights Shares and the Rights Shares may not be offered, sold, pledged, taken up, resold, renounced, transferred or delivered, directly or indirectly, into or within any of the Specified Territories absent registration or qualification under the respective securities laws of such Specified Territories, or exemption from the registration or qualification requirement under applicable rules of such Specified Territories.

Shareholders with registered addresses in any jurisdictions outside Hong Kong are referred to the paragraphs headed “Non-Qualifying Shareholders” under the section headed “Letter from the Board” of this Prospectus.

Each person acquiring nil-paid Rights Shares and/or Rights Shares under the Rights Issue will be required to confirm, or be deemed by his acquisition of nil-paid Rights Shares and/or Rights Shares to confirm, that he is aware of the restrictions on offers and sales of nil-paid Rights Shares and/or Rights Shares described in this Prospectus.

For a description of certain restrictions regarding the taking up of nil-paid Rights Shares for, and the offering and sale of, the Rights Shares, see the notices below.

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## NOTICE

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### NOTICE TO OVERSEAS INVESTORS

Based on the legal advice of the Company's legal advisers in relation to the laws of the relevant overseas restrictions, the following notices are set out for the attention of the overseas investors in the following jurisdictions:

#### **Australia**

This Prospectus does not constitute a prospectus for the purposes of the Corporations Act 2001 of the Commonwealth of Australia (the "**Corporations Act**") and has not been, and will not be, lodged with the Australian Securities and Investments Commission. No offer of Rights Shares in nil-paid or fully-paid forms is made in Australia, and this Prospectus must not be provided to persons in Australia, except to persons to whom such offers may be made without a prospectus under the Corporations Act. Any person to whom Rights Shares in nil-paid or fully-paid forms are issued or sold pursuant to this document must not, within 12 months after the issue, offer (or transfer, assign or otherwise alienate) those Rights Shares in nil-paid or fully-paid forms to persons in Australia except in circumstances where disclosure is not required under the Corporations Act.

This Prospectus is intended to provide general information only and has been prepared without taking into account any particular person's objectives, financial situation or needs. Investors should, before acting on this information, consider the appropriateness of this information having regard to their personal objectives, financial situation or needs. Investors should review and consider the contents of this document and obtain financial advice specific to their situation before making any decision to make an application for the Rights Shares in nil-paid or fully-paid forms. No person referred to in this Prospectus holds an Australian Financial Services Licence authorising it to deal in securities or to provide financial product advice in relation to the Rights Shares in nil-paid or fully-paid forms. No cooling-off regime applies in respect of the Rights Shares in nil-paid or fully-paid forms.

This Prospectus is not, and under no circumstances is to be construed as, an advertisement or a public offering of the Rights Shares in nil-paid or fully-paid forms in Australia.

This information has not been prepared for an Australian audience. You should therefore note that this information:

- may contain references to dollar amounts which are not Australian dollars;
- may contain financial information which is not prepared in accordance with Australian law or practices;
- may not address risks associated with investment in foreign currency denominated investments; and
- does not address Australian tax issues.

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## NOTICE

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### **Cook Islands**

This Prospectus does not constitute and will not be construed as an offer or solicitation to the public of the Cook Islands in connection with the Rights Issue to subscribe for the Rights Shares in nil-paid or fully-paid forms. The Prospectus would be considered to be a private placement under Cook Islands' law. The offer or solicitation in connection with the Rights Issue does not and will not trigger any securities offering implications or restrictions.

The Rights Issue to subscribe for the Rights Shares in nil-paid and fully-paid forms pursuant to the Prospectus will not require any authorisations, approvals, consents, licenses, exemptions, filings, registrations, notarisation or other requirements to be obtained from any governmental, judicial and public body, regulatory authority of the Cook Islands.

### **France**

This Prospectus has not been prepared in the context of a public offering of securities in France (offre au public) within the meaning of Article L.411-1 of the French Code *monétaire et financier* and Articles 211-1 and seq. of the *Autorité des marchés financiers* (the “AMF”) regulations and therefore has not been submitted to the AMF, nor any competent authority of another Member State of the European Economic Area and notified to the AMF, for prior approval or otherwise and no prospectus has been prepared in relation to the securities.

The Rights Shares in nil-paid or fully-paid forms have not been offered or sold and will not be offered or sold, directly or indirectly, to the public in France and neither this Prospectus nor any other offering material relating to the securities has been distributed or caused to be distributed or will be distributed or caused to be distributed to the public in France, except only to persons licensed to provide the investment service of portfolio management for the account of third parties and/or to “qualified investors” (as defined in Article L.411-2 and D.411-1 of the French Code *monétaire et financier*) and/or to a limited circle of investors (as defined in Article L.411-2 and D.411-4 of the French Code *monétaire et financier*) on the condition that no such Prospectus nor any of the Rights Issue Documents shall be delivered by them to any person nor reproduced (in whole or in part). Such “qualified investors” and limited circle of investors referred to in Article L.411-2 II 2° are notified that they must act in that connection for their own account in accordance with the terms set out by Article L.411-2 of the French Code *monétaire et financier* and by Article 211-3 of the AMF Regulations and may not re-transfer, directly or indirectly, the Rights Shares in nil-paid or fully-paid forms in France, other than in compliance with applicable laws and regulations and in particular those relating to a public offering (which are, in particular, embodied in Articles L.411-1, L.412-1 and L.621-8 to L.621-8-3 of the French Code *monétaire et financier*).

You are hereby notified that in connection with the purchase of these securities, you must act for your own account in accordance with the terms set out by Article L.411-2 of the French Code *monétaire et financier* and by Article 211-3 of the AMF Regulations and may not re-transfer, directly or indirectly, the Rights Shares in nil-paid or fully-paid forms in France, other than in compliance with applicable laws and regulations and in particular those relating to a public offering (which are, in particular, embodied in Articles L.411-1, L.411-2, L.412-1 and L.621-8 to L.621-8-3 of the French Code *monétaire et financier*).

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## NOTICE

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### Latvia

In relation to each state which is a party to the agreement relating to the European Economic Area (an “**EEA State**”) and which has implemented the Prospectus Directive (a “**Relevant Member State**”), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State, an offer to the public of any Rights Shares in nil-paid or fully-paid forms which are the subject of the Rights Issue contemplated by this Prospectus may not be made in that Relevant Member State, except pursuant to the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

- (a) to any legal entity which is a “qualified investor” as defined in the Prospectus Directive;
- (b) to fewer than 100 natural or, if the Relevant Member State has implemented the relevant provision of Directive 2010/73/EU, 150, natural or legal persons (other than qualified investors), as permitted under the Prospectus Directive; or
- (c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Rights Shares in nil-paid or fully-paid forms shall require the Company or any of the Joint Underwriters to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive. For the purposes of this provision, the expression “an offer to the public” in relation to any Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the Rights Issue and any Rights Shares in nil-paid or fully-paid forms to be offered so as to enable an investor to decide to purchase or subscribe for any Shares, as the same may be varied in that Member State, by any measure implementing the Prospectus Directive in that Relevant Member State and the expression “Prospectus Directive” means Directive 2003/71/EC (and amendments thereto, including Directive 2010/73/EU, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in each Relevant Member State.

### Mongolia

This Prospectus will not be registered with or approved as prospectus pursuant to the Law of Mongolia on Securities Market dated 24 May 2013 by the Financial Regulatory Committee of Mongolia. Accordingly, the requirements under the Law of Mongolia on Securities Market, as well as the relevant regulations and procedures, are not considered in preparing this Prospectus and will not apply to this document. Further, this Prospectus shall not constitute or be construed as an offer to the public in Mongolia in connection with the Rights Issue to subscribe for the Rights Shares in nil-paid or fully-paid forms. This document should not be distributed, published or reproduced, in whole or in part by recipients to any other person in Mongolia.

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## NOTICE

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### Norway

This Prospectus has not been registered with or approved by the Norwegian Register of Business Enterprises or the Norwegian Financial Supervisory Authority under Chapter 7 of the Norwegian Securities Trading Act of 29 June 2007 as amended (the “**Act**”). The Rights Shares in nil-paid or fully-paid forms may not be offered or sold directly or indirectly in Norway except to persons who are Professional Investors under the Act or in respect of offers for the purchase of or subscription for securities issued in minimum lots of 100,000 Euro in terms of nominal value or Subscription Price or otherwise in circumstances which will not trigger the requirement to prepare and file a prospectus in connection with the offer of the Rights Shares under the Act.

This Prospectus is only and exclusively addressed to the addressees and cannot be distributed, offered or presented, either directly or indirectly to other persons or entities domiciled in Norway without the consent of the Company.

Shareholders are advised to seek legal advice to ensure that they are classified as Professional Investors under the Act or are otherwise in circumstances which will not trigger a prospectus requirement under the Act.

### Singapore

The Rights Issue Documents and any other materials relating to the Rights Issue are confidential and have not been and will not be lodged with and registered as a prospectus under the Securities and Futures Act, Chapter 289 of Singapore (the “**SFA**”) with the Monetary Authority of Singapore (the “**MAS**”). This Prospectus and any other document or material issued in connection with the Rights Issue is not a prospectus as defined in the SFA. Accordingly, statutory liability under the SFA in relation to the content of prospectuses would not apply. The MAS assumes no responsibility for the contents.

The Rights Issue Documents and any other materials relating to the Rights Issue are addressed solely to and is for the exclusive use of persons whose names were on the register of members of the Company with registered addresses in Singapore on the Record Date (the “**Singapore Shareholders**”). Any offer or invitation in respect of the Rights Shares is capable of acceptance only by the Singaporean Shareholders and is not transferable. The Rights Issue Documents and any other materials relating to the Rights Issue may not be distributed or given to any person other than the Singaporean Shareholders. The Rights Issue Documents and any other materials relating to the Rights Issue should not be reproduced, in whole or in part.

This offer or invitation is made in reliance on the exemption under Section 273(1)(cd)(i) of the SFA. It is not made in or accompanied by a prospectus that is registered by the MAS.

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## NOTICE

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Accordingly, the Rights Issue Documents and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Rights Shares may not be issued, circulated or distributed, in Singapore nor may any Rights Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) pursuant to, and in accordance with, the prospectus registration and other requirements in Subdivisions (2) and (3) of Division 1 of Part XIII of the SFA or (ii) pursuant to, and in accordance with, the conditions of any provision of Subdivision (4) of Division 1 of Part XIII of the SFA.

### **Switzerland**

The Rights Shares in nil-paid or fully-paid forms may not be publicly offered, sold or advertised directly or indirectly into or in Switzerland and will not be listed on the SIX Swiss Exchange (the “**SIX**”) or any other stock exchange or regulated trading facility in Switzerland. This Prospectus and any other offering or marketing material relating to the Rights Shares do not constitute a listing prospectus according to the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland or an issue prospectus according to Art. 652a and/or Art. 1156 of the Swiss Code of Obligations (the “**CO**”), and, therefore, it has been prepared without regard to the disclosure standards for issuance of prospectuses under Art. 652a or Art. 1156 CO or the disclosure standards for listing prospectuses under Art. 27ff. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. The Rights Shares in nil-paid or fully-paid forms are being offered in Switzerland by way of a private placement, without any public advertisement.

This Prospectus as well as any other offering or marketing material relating to the Rights Shares in nil-paid or fully-paid forms or the Rights Issue is personal and confidential and does not constitute an offer to any other person. Neither this Prospectus nor any other offering or marketing material relating to the Rights Shares in nil-paid or fully-paid forms or the Rights Issue may be publicly distributed or otherwise made publicly available in Switzerland. Neither this Prospectus nor any other offering or marketing material relating to the Rights Issue, the Company or the Rights Shares in nil-paid or fully-paid forms have been or will be filed with or approved by any Swiss regulatory authority.

### **United Kingdom**

Neither the information in this Prospectus nor any other document relating to the Rights Issue has been delivered for approval to the Financial Conduct Authority in the United Kingdom and no prospectus (within the meaning of section 85 of the Financial Services and Markets Act 2000, as amended (“**FSMA**”)) has been published or is intended to be published in respect of the Rights Shares in nil-paid or fully-paid forms.

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## NOTICE

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In relation to each EEA State and Relevant Member State, with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State, an offer to the public of any Rights Shares in nil-paid or fully-paid forms which are the subject of the Rights Issue contemplated by this Prospectus may not be made in that Relevant Member State, except pursuant to the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

- (a) to any legal entity which is a “qualified investor” as defined in the Prospectus Directive;
- (b) to fewer than 100 natural or, if the Relevant Member State has implemented the relevant provision of Directive 2010/73/EU, 150, natural or legal persons (other than qualified investors), as permitted under the Prospectus Directive; or
- (c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Rights Shares in nil-paid or fully-paid forms shall require the Company or any of the Joint Underwriters to publish a prospectus pursuant to Article 3 of the Prospectus Directive and each person who initially acquires Rights Shares in nil-paid or fully-paid form will be deemed to have represented, acknowledged, and agreed that it is a “qualified investor” within the meaning of Article 2(1)(e) of the Prospectus Directive.

For this purpose, the expression “an offer to the public” in relation to any Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the Rights Issue and any Rights Shares in nil-paid or fully-paid forms to be offered so as to enable an investor to decide to purchase or subscribe for any Shares, as the same may be varied in that Member State, by any measure implementing the Prospectus Directive in that Relevant Member State and the expression “Prospectus Directive” means Directive 2003/71/EC (and amendments thereto, including Directive 2010/73/EU, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in each Relevant Member State.

In the United Kingdom, this Prospectus and the offering of securities described herein is only being made available to, and is only directed at, persons who are both (i) “qualified investors” within the meaning of Article 2(1)(e) of the Prospectus Directive and (ii) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005, as amended (the “**Order**”) or high net worth companies falling within Article 49(2)(a) to (d) of the Order (together “**relevant persons**”). The investments to which this Prospectus relates are available only to, and any investment activity will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this Prospectus or any of its contents.



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## NOTICE

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### **The United States**

The PAL, the EAF, the Rights Shares in nil-paid or fully-paid forms have not been and will not be registered under the US Securities Act or securities laws of any state or other jurisdiction of the United States and may not be offered, sold, allotted, taken up, exercised, resold, renounced, pledged, transferred or delivered, directly or indirectly, in or into the United States, except pursuant to an applicable exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States. There will be no public offer of the PAL, the Rights Shares in nil-paid or fully-paid forms in the United States.

The PAL, the EAF, the Rights Shares in nil-paid or fully-paid forms have not been approved or disapproved by the United States Securities and Exchange Commission, any state securities commission in the United States or any US regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the Rights Issue, the PAL, the EAF, the Rights Shares in nil-paid or fully-paid forms or the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offence in the United States.

Subject to certain exceptions, none of this Prospectus, the PAL or the EAF constitutes or will constitute, or forms or will form, part of any offer or invitation to issue, purchase or acquire the Rights Shares in nil-paid or fully-paid forms to any person with a registered address, or who is located, in the United States. The Rights Shares in nil-paid or fully-paid forms are being offered outside the United States in reliance on Regulation S under the US Securities Act.

In addition, until 40 days after the commencement of the offering of the Rights Shares in nil-paid or fully-paid forms, or the procurement of purchasers by the Joint Underwriters of the Rights Shares not initially taken up, any offer, sale or transfer of the Rights Shares in nil-paid or fully-paid forms in or into the United States by a dealer (whether or not participating in the Rights Issue) may violate the registration requirements of the US Securities Act.

The Joint Underwriters may arrange for the offer of the Rights Shares not taken up in the Rights Issue only outside the United States in reliance on Regulation S under the US Securities Act. Each purchaser or subscriber of the Rights Shares being offered and sold outside the United States will be deemed to have represented and agreed, among other things, that the purchaser or subscriber is acquiring the Rights Shares in an offshore transaction meeting the requirements of Regulation S under the US Securities Act.

Notwithstanding the foregoing, in certain limited circumstances, the Company may allow persons in the United States whom the Company reasonably believes to be qualified institutional buyers (as defined in Rule 144A of the US Securities Act) to take up Rights Shares in transactions that are exempt from the registration requirements under the US Securities Act, as determined by the Company in its absolute discretion. Shareholders and Beneficial Owners in the United States should contact the Company's investor relations department for further details on whether they would be allowed to participate in the Rights Issue in these limited circumstances.

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## DEFINITIONS

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*In this Prospectus, unless the context otherwise requires, the following terms shall have the following meanings:*

“Announcement”	the announcement of the Company dated 31 October 2014 in relation to, among other things, the Rights Issue
“Articles”	the existing articles of association of the Company as amended from time to time
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Beneficial Owner(s)”	any beneficial owner(s) of Shares whose Shares are registered in the name of a registered Shareholder
“BN deposit”	Baruun Naran deposit located in South Gobi Province of Mongolia which is covered by Mining License MV-014493 and Mining License MV-017336, held by Khangad Exploration LLC, an indirect wholly-owned subsidiary of the Company
“BN mine”	the aboveground portion of the BN deposit and its related infrastructure
“BNP Paribas”	BNP Paribas Securities (Asia) Limited
“Board”	the board of Directors
“Business Day”	any day (other than a Saturday or a Sunday) on which banks generally are open for business in Hong Kong
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CHPP”	coal handling and preparation plant
“Circular”	the circular of the Company dated 7 November 2014 in relation to, among other things, the Rights Issue together with the notice of the EGM
“Committed Shares”	the aggregate of 3,659,139,288 Rights Shares which the Irrevocable Undertaking Covenantors have undertaken to subscribe

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## DEFINITIONS

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“Company”	Mongolian Mining Corporation (stock code: 975), a company incorporated in the Cayman Islands with limited liability whose Shares are listed on the Main Board of the Stock Exchange
“Controlling Shareholder”	has the meaning ascribed thereto under the Listing Rules
“C&F”	cost-and-freight
“DAP”	delivery at place
“Despatch Date”	3 December 2014 or such later date as may be agreed between the Company and the Joint Underwriters for the despatch of the Rights Issue Documents
“Director(s)”	the director(s) of the Company
“EAF(s)”	the application form(s) for excess Rights Shares to be issued to Qualifying Shareholders in respect of application for excess Rights Shares
“EGM”	the extraordinary general meeting held at 10:00 a.m. on 24 November 2014 at which the Rights Issue was approved
“Final Acceptance Date”	the last date for acceptance and payment in respect of provisional allotments under the Rights Issue and for application and payment for excess Rights Shares, which is currently expected to be 17 December 2014 or such later date as the Company and the Joint Underwriters may agree in writing
“GM”	Ganqimaodu, the China side of the China-Mongolia border crossing
“Group”	the Company and its subsidiaries
“GS”	Gashuun Sukhait, the Mongolia side of the China-Mongolia border crossing
“HCC”	hard coking coal
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HK\$” or “HKD”	Hong Kong dollars, the lawful currency of Hong Kong

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## DEFINITIONS

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“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Shareholder(s)”	Shareholders other than MCS Mining Group and its associates
“Independent Third Party”	any entity or person who is not a connected person within the meaning ascribed under the Listing Rules
“Intermediary”	in relation to a Beneficial Owner whose Shares are deposited in CCASS and registered in the name of HKSCC Nominees Limited, means the Beneficial Owner’s broker, custodian, nominee or other relevant person who is a CCASS Participant or who has deposited the Beneficial Owner’s Shares with a CCASS Participant
“Irrevocable Undertaking”	each of the irrevocable undertakings dated 31 October 2014 given by each of the Irrevocable Undertaking Covenantors respectively in favour of the Company and the Joint Underwriters, collectively the “Irrevocable Undertakings”
“Irrevocable Undertaking Covenantors”	MCS Mining Group, Novel Holdings Group Limited, Trimunkh Limited, Sumberu Limited, Eco Mogul Limited, Inter Group Mongolia Limited, Gera Investments Limited, Benu Investment Limited, Crystalline Investment Limited, Tamirana Limited, Tugs Investment Limited, Shunkhlai Mining, Kerry Mining (UHG) Limited, Lotus Amsa Limited, Highline Holdings Limited, True Kind Limited, Anand & Co. Holding Limited and Botgo Limited
“Joint Underwriters”	BNP Paribas and J.P. Morgan
“J.P. Morgan”	J.P. Morgan Securities (Asia Pacific) Limited
“km”	kilometers
“Last Closing Price”	the closing price of HK\$1.03 per Share as quoted on the Stock Exchange on the Last Trading Day
“Last Day for Transfer”	27 November 2014, being the last date for lodging transfer of Shares prior to the closure of the register of members of the Company

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## DEFINITIONS

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“Last Trading Day”	30 October 2014, being the last full trading day of the Shares on the Stock Exchange immediately before the issue of the Announcement
“Latest Practicable Date”	28 November 2014, being the latest practicable date prior to the printing of this Prospectus for the purpose of ascertaining certain information for inclusion therein
“Latest Termination Date”	4:00 p.m. on the third Business Day after the Final Acceptance Date or such later date as the Company and the Joint Underwriters may agree in writing
“Latest Time for Acceptance”	a time which is currently expected to be 4:00 p.m. on the Final Acceptance Date
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“MCS Mining Group”	MCS Mining Group Limited, a company incorporated in the British Virgin Islands with limited liability, our Controlling Shareholder
“MNT”	tugrik or togrog, the lawful currency of Mongolia
“Mt”	million tons
“Non-Qualifying Shareholders”	the Overseas Shareholder(s) to whom the Directors, after making relevant enquiries, consider it necessary or expedient to exclude from the Rights Issue, on account either of legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place
“Overseas Shareholder(s)”	(i) the Shareholder(s) whose name(s) appear(s) on the register of members of the Company on the Record Date and whose address(es) as shown on the register of members of the Company is/are outside Hong Kong and (ii) Beneficial Owners whose address(es) is/are outside Hong Kong
“PAL(s)”	the provisional allotment letter(s) for the Rights Shares, to be issued to Qualifying Shareholders in respect of their entitlements under the Rights Issue
“Parliament”	Parliament of Mongolia

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## DEFINITIONS

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“PCI”	pulverized coal injection
“PRC” or “China”	the People’s Republic of China which, for the purposes of this Prospectus, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Price Determination Date”	31 October 2014, the date on which the Subscription Price was fixed for the purposes of the Rights Issue
“Prospectus”	the prospectus to be issued by the Company in relation to the Rights Issue
“Qualifying Shareholder(s)”	the Shareholder(s), other than Non-Qualifying Shareholder(s), whose name(s) appear(s) on the register of members of the Company on the Record Date
“Record Date”	such date as the Company may specify as the record date for determining entitlements to participate in the Rights Issue, which is currently expected to be 2 December 2014
“Registrar”	the Company’s Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong
“Rights Issue”	the proposed issue by the Company of the Rights Shares at the Subscription Price by way of rights on the basis of three Rights Shares for every two existing Shares held on the Record Date
“Rights Issue Documents”	the Prospectus, the PAL(s) and the EAF(s)
“Rights Shares”	the 5,557,554,750 new Shares to be issued and allotted by the Company under the Rights Issue
“RMB”	Renminbi, the lawful currency of China
“SFO”	Securities and Futures Ordinance
“Share(s)”	ordinary share(s) of the Company with a par value of USD0.01 each
“Shareholder(s)”	holder(s) of Shares

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## DEFINITIONS

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“Share Option Scheme”	the share option scheme adopted by the Company on 17 September 2010 pursuant to which share options are exercisable to subscribe for an aggregate of 26,350,000 new Shares with exercise period commencing on or before the Record Date
“Share Options”	the outstanding share options as at the Latest Practicable Date granted pursuant to the Share Option Scheme which are validly vested and exercisable by the holders
“Specified Territory(ies)”	the United States
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	the subscription price of HK\$0.28 per Rights Share
“UHG”	Ukhaa Khudag
“UHG deposit”	Ukhaa Khudag deposit located in South Gobi Province of Mongolia which is covered by Mining License MV-011952 held by Energy Resources LLC, an indirect wholly-owned subsidiary of the Company
“UHG mine”	the aboveground portion of the UHG deposit and its related infrastructure
“UHG Power Plant”	18 megawatt power plant at the UHG site
“Underwriting Agreement”	the underwriting agreement dated 31 October 2014 entered into between the Company and the Joint Underwriters in relation to the Rights Issue
“Underwritten Shares”	the Rights Shares other than the Committed Shares
“US” or “United States”	the United States of America
“US Securities Act”	United States Securities Act of 1933, as amended
“USD”	United States dollar, the lawful currency of the United States
“%”	per cent



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## EXPECTED TIMETABLE

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The expected timetable for the Rights Issue is set out below:

<b>Event</b>	<b>2014</b>
Last day of dealings in Shares on a cum-rights basis . . . . .	Tuesday, 25 November
First day of dealings in Shares on an ex-rights basis . . . . .	Wednesday, 26 November
Latest time for lodging transfers of Shares in order to qualify for the Rights Issue . . . . .	4:30 p.m. on Thursday, 27 November
Closure of the register of members for determining entitlements under the Rights Issue (both days inclusive). . . . .	Friday, 28 November to Tuesday, 2 December
Record Date. . . . .	Tuesday, 2 December
Reopening of register of members. . . . .	Wednesday, 3 December
Rights Issue Documents expected to be despatched on. . . . .	Wednesday, 3 December
First day of dealings in nil-paid Rights Shares . . . . .	9:00 a.m. on Friday, 5 December
Latest time for splitting nil-paid Rights Shares . . . . .	4:30 p.m. on Tuesday, 9 December
Last day of dealings in nil-paid Rights Shares . . . . .	4:00 p.m. on Friday, 12 December
Latest time for acceptance of and payment for Rights Shares and for application and payment for excess Rights Shares. . . . .	4:00 p.m. on Wednesday, 17 December
Rights Issue expected to become unconditional on or before . . . . .	4:00 p.m. on Monday, 22 December
Publication of announcement of results of the Rights Issue and excess applications . . . . .	Wednesday, 24 December
Refund cheques in respect of wholly or partially unsuccessful applications for excess Rights Shares expected to be despatched on or before . . . . .	Monday, 29 December
Share Certificates for fully-paid Rights Shares expected to be despatched on or before . . . . .	Monday, 29 December
First day of dealings in fully-paid Rights Shares . . . . .	9:00 a.m. on Tuesday, 30 December

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## EXPECTED TIMETABLE

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*Note:* All times and dates in this Prospectus refer to Hong Kong local times and dates. Dates or deadlines specified in this Prospectus for events in the timetable for (or otherwise in relation to) the Rights Issue are indicative only and may be extended or varied by agreement between the Company and the Joint Underwriters. Any changes to the anticipated timetable for the Rights Issue will be published or notified to the Shareholders and the Stock Exchange as appropriate.

### **EFFECT OF BAD WEATHER ON LATEST TIME FOR ACCEPTANCE OF AND PAYMENT FOR RIGHTS SHARES**

The latest time for acceptance of and payment for the Rights Shares will not take place as shown if there is a tropical cyclone warning signal no. 8 or above, or a “black” rainstorm warning in force in Hong Kong at any local time:

- (i) before 12:00 noon and no longer in force after 12:00 noon on the Final Acceptance Date. Instead the latest time for acceptance of and payment for the Rights Shares will be extended to 5:00 p.m. on the same Business Day; or
- (ii) between 12:00 noon and 4:00 p.m. on the Final Acceptance Date. Instead the latest time of acceptance of and payment for the Rights Shares will be rescheduled to 4:00 p.m. on the following Business Day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m.

If the latest time for acceptance of and payment for the Rights Shares does not take place on the Final Acceptance Date, the dates mentioned in section headed “Expected timetable of the Rights Issue” above may be affected. The Company will notify its Shareholders by way of announcements on any change to the expected timetable as soon as practicable.

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## SUMMARY OF THE RIGHTS ISSUE

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The following information is derived from, and should be read in conjunction with, the full text of this Prospectus.

Basis of the Rights Issue:	Three Rights Share for every two Shares held on the Record Date
Subscription Price:	HK\$0.28 per Rights Share
Number of Shares in issue on the Record Date:	3,705,036,500 Shares
Number of Rights Shares to be issued under the Rights Issue:	5,557,554,750 Rights Shares
Amount to be raised:	Approximately HK\$1,556 million, before estimated expenses
Joint Underwriters:	BNP Paribas and J.P. Morgan (in alphabetical order)
Enlarged number of Shares in issue upon completion of the Rights Issue:	9,262,591,250 Shares (assuming no new Shares (other than the Rights Shares) are allotted and issued on or before completion of the Rights Issue)
Right to make excess applications:	Qualifying Shareholders may apply, by way of excess application, for Rights Shares in excess of their provisional allotments

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## TERMINATION OF THE UNDERWRITING AGREEMENT

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The Underwriting Agreement contains provisions granting the Joint Underwriters, by notice in writing to the Company, the right to terminate the Underwriting Agreement on the occurrence of certain events.

The Joint Underwriters may at any time prior to the Latest Termination Date, by notice in writing to the Company, rescind or terminate the Underwriting Agreement if:

- (a) there shall develop, occur, exist or come into effect or become public knowledge any event, series of events or circumstances concerning or relating to:
  - (i) any new laws or any change, or any development involving a prospective change, in existing laws or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong, Mongolia or the PRC; or
  - (ii) any local, national or international event or change (whether or not foregoing part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement) of a political, military, financial, economic, industrial, regulatory or securities and other market conditions or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets; or
  - (iii) any change, or any development involving a prospective change, or any event or circumstance reasonably expected to result in a change or a development involving a prospective change, in or affecting the assets, liabilities, business, general affairs, management, prospects, profits, losses, results of operations, position or condition, financial or trading, or performance of the Company and the other members of the Group, taken as a whole; or
  - (iv) any event or circumstance in the nature of force majeure (including, without limitation, any act of government, economic sanctions, strike or lock-out, riot, fire, explosion, flooding, earthquake, civil commotion, act or declaration of war, outbreak or escalation of hostilities (whether or not war is or has been declared), act of terrorism (whether or not responsibility has been claimed), act of God, pandemic, epidemic, outbreak of infectious disease, declaration of a state of emergency or calamity or crisis), in each case affecting Hong Kong, Mongolia or the PRC; or
  - (v) a general moratorium on commercial banking activities declared by relevant authorities in Hong Kong, the PRC, Mongolia, the United States, the United Kingdom or the European Union (or any member thereof) or a material disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in Hong Kong, the PRC, Mongolia, the United States, the United Kingdom or the European Union (or any member thereof); or

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## TERMINATION OF THE UNDERWRITING AGREEMENT

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- (vi) any suspension or restriction on trading in shares or securities generally, or the establishment of minimum prices, on the Stock Exchange, the London Stock Exchange plc, the New York Stock Exchange, Inc. or NASDAQ, or any major disruption of any securities settlement or clearing services in Hong Kong; or
- (vii) any change, or any development involving a prospective change, or any event or circumstance likely to result in a change or a development involving a prospective change, in or affecting any Taxation, exchange controls or currency exchange rates in Hong Kong, the PRC, Mongolia, the United States, the United Kingdom or the European Union (or any member thereof); or
- (viii) an authority or a political body or organization in any relevant jurisdiction commencing any investigation or other action, or announcing an intention to investigate or take other action, against any director of the Company;

which, in the sole opinion of the Joint Underwriters:

- (1) is or will or is reasonably expected to have a material adverse effect on the business or financial or trading position or prospects of the Group or the Rights Issue; or
  - (2) has or will have or is reasonably expected to have a material adverse effect on the success of the Rights Issue or the level of Rights Shares taken up; or
  - (3) makes it impracticable, inadvisable or inexpedient to proceed with the Rights Issue; or
- (b) there comes to the notice of any of the Joint Underwriters including but not limited to the following:
- (i) any matter or event showing any of the Warranties (as defined in the Underwriting Agreement) was, when given, untrue, incorrect or misleading or as having been breached; or
  - (ii) any material breach by the Company of any provision of the Underwriting Agreement, or any material breach by the Irrevocable Undertaking Covenantors of the Irrevocable Undertakings of any of their respective obligations or undertakings contained therein; or
  - (iii) any statement contained in the Prospectus has become or been discovered to be untrue, incorrect, incomplete or misleading in any material respect; or
  - (iv) any event, act or omission occurs which gives or is likely to give rise to any material liability of the Company pursuant to the indemnities referred to in the Underwriting Agreement; or

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## TERMINATION OF THE UNDERWRITING AGREEMENT

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- (v) failing to obtain the requisite Shareholders approval of the Rights Issue at the EGM; or
  - (vi) there is any change or development involving a prospective change in the condition, results of operations, prospects, management, business, shareholders' equity or in the financial or trading position of the Company or any member of the Group which, in the sole opinion of the Joint Underwriters, is or is reasonably expected to have a material adverse effect in the context of the Rights Issue; or
  - (vii) permission to deal in and listing of all the Rights Shares (in their nil-paid and fully-paid forms) has been withdrawn by the Stock Exchange; or
- (c) any matter or circumstance arises as a result of which any of the conditions set out in the Underwriting Agreement has become incapable of satisfaction as at the required time.

**In the event the Joint Underwriters exercise their right to terminate the Underwriting Agreement prior to the Latest Termination Date, the obligations of all parties thereunder shall immediately cease and null and void and no party will (save in respect of certain rights or obligations under the Underwriting Agreement) have any right against or liability towards any of the other parties arising out of or in connection with the Underwriting Agreement.**

**If the Joint Underwriters exercise such right, the Underwriting Agreement will not become unconditional and the Rights Issue will not proceed. Further announcement will be made if the Underwriting Agreement is terminated by the Joint Underwriters.**

### **WARNING OF THE RISKS OF DEALING IN SHARES AND NIL-PAID RIGHTS SHARES**

**The Shares are expected to be dealt in on an ex-rights basis from 26 November 2014 (Wednesday). Dealings in the Rights Shares in nil-paid form are expected to take place from 5 December 2014 (Friday) to 12 December 2014 (Friday) (both dates inclusive). The Rights Issue is conditional upon the Underwriting Agreement becoming unconditional and not being terminated. It should also be noted that the Underwriting Agreement contains provisions granting the Joint Underwriters the right to terminate the Underwriting Agreement on the occurrence of certain events including force majeure. Please refer to the section headed "Termination of the Underwriting Agreement" in this Prospectus for further details. If the Underwriting Agreement does not become unconditional or is terminated, the Rights Issue will not proceed, in which case a further announcement will be made by the Company at the relevant time.**

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## TERMINATION OF THE UNDERWRITING AGREEMENT

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Any Shareholder or other person dealing in Shares or other securities of the Company up to the date on which all conditions to which the Rights Issue is subject (as set out under the paragraph headed “Conditions of the Rights Issue” in this Prospectus) are fulfilled (and the date on which the right of termination of the Joint Underwriters under the Underwriting Agreement ceases) and any person dealing in nil-paid Rights Shares during the period from 5 December 2014 (Friday) to 12 December 2014 (Friday) (both days inclusive) will bear the risk that the Rights Issue may not become unconditional or may not proceed and are advised to exercise caution when dealing in the Shares and/or nil-paid Rights Shares. If in any doubt, Shareholders and other persons contemplating dealing in securities of the Company and potential investors are recommended to consult their professional advisers. Shareholders and potential investors should exercise caution in dealing in the securities of the Company. Any buying or selling of the securities of the Company from now up to the date on which all the conditions to which the Rights Issue is subject are fulfilled, and any buying or selling of nil-paid Rights Shares, is at each investor’s own risk that the Rights Issue may not become unconditional and may not proceed.

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## RISK FACTORS

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### RISKS RELATING TO OUR BUSINESS AND INDUSTRY

**Our operational results are subject to fluctuations in the global economy, market conditions and various other factors including those beyond our control.**

We are primarily engaged in the mining and sale of coal. Our business depends on, among other things, general economic conditions and as with all business operations, is subject to various factors including those beyond our control. In particular, the results of our operations are particularly dependent on realised coal price, production and sales volumes each of which may vary from estimates due to a variety of factors including seasonality, fluctuations in the global price of coal, supply-demand dynamics and economic activities in China or Mongolia. If there is no improvement in the global coal price or our sales and if our strategy to change our sales channel structure (from DAP GM terms to C&F terms) does not prove successful, all else remaining the same, there is a substantial risk that the Company will not be able to meet its financial obligations.

**We have significant levels of indebtedness, which could adversely affect us or the Shareholders.**

As of June 30, 2014, we had USD893.2 million in outstanding short-term and long-term borrowings, including indebtedness incurred under (i) USD600 million senior Notes (the “**Senior Notes**”); (ii) USD150 million facility with BNP Paribas Singapore Branch and Industrial and Commercial Bank of China Limited (the “**BNP and ICBC Facility**”); (iii) USD114.5 million outstanding under 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 revolving credit line from Trade and Development Bank of Mongolia. There can be no assurance that our business will generate sufficient cash flow from operations to repay these borrowings. In addition, repaying these borrowings with cash generated by our operating activities will divert our financial resources from the requirements of our ongoing operations and growth, and may have a material adverse effect on our business, prospects, financial condition and results of operations. Furthermore, we are subject to interest rate fluctuations on our financial indebtedness which may adversely impact our cash flow if prevailing interest rates increase. We may not be able to meet our financial obligations under our current financing agreements if we fail to renew our existing borrowings or otherwise obtain funding for these purposes.

Any acceleration of indebtedness may cause defaults and cross defaults under our current and future financing agreements, as well as significant reductions in our liquidity which would have a material adverse effect on our business, prospects, financial condition and results of operations. As of June 30, 2014, we had USD893.2 million of outstanding Senior Notes and bank borrowings, all of which contained cross-default provisions.



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## RISK FACTORS

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As of the date of this Prospectus, we have pledged certain accounts, our coal mining agreement with Leighton LLC (“**Leighton**”), our offtake agreements, two of our three CHPP modules, our certain water supply infrastructure assets, our 18 megawatt power plant, certain coal stockpiles and certain shares of subsidiaries and associate companies in connection with our Senior Notes, BNP and ICBC Facility, EBRD, FMO and DEG Loan Agreements, and the securing of loan repayment obligations of International Medical Center LLC in proportion to our equity interest. We may lose part or all of these pledged properties and assets if we default on these secured borrowings, which would have a material adverse effect on our business, prospects, financial condition and results of operations.

**We may have limited ability to obtain new financing or re-financing for our existing facilities. The global financial markets have experienced significant deterioration and volatility in the past few years, which may adversely affect our financial condition and results of operations.**

The worldwide economic conditions may have a negative impact on the demand for coking coal in China, our primary sales market. In addition, the credit tightening environment may affect our ability to obtain re-financing, or banks may even reduce the amount of or discontinue the banking facilities currently available to us. Our ability to obtain re-financing, which is subject to a variety of uncertainties, may be affected by:

- our future financial condition and credit rating;
- general market conditions for financing activities;
- general market conditions for coking coal;
- our share price; and
- Government of Mongolia policies and regulations relating to coal mining enterprises and lending in general.

External financing may not be available in a timely manner, on acceptable terms, or at all. In addition, there can be no assurance that actions taken by international organisations and various governments will be effective during times of global financial and economic crisis.

**Coal markets and demand for coal are highly competitive and are affected by factors beyond our control.**

The Group sells substantially all of the coal it produces into China. The Group competes with Chinese, Mongolian, and other foreign coal producers (primarily from Australia) in the PRC coal market. Competition in the Chinese coal market is based on many factors, including, among others, price, production capacity, coal quality and characteristics, transportation capability and costs, blending capability and brand name. Due to their location, some of our Chinese competitors may have lower transportation costs than we do. The Chinese coal market

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## RISK FACTORS

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is highly fragmented and we face price competition from some small local coal producers that produce coal at lower costs than us due to various factors, including their lower expenditure on safety and regulatory compliance. Some of our international competitors may have greater coal production capacity as well as greater financial, marketing, distribution and other resources than we do, and may benefit from more established brand names in international markets. As Mongolia is a landlocked country sharing borders only with China and Russia, we may be unable to access other markets if there is reduced demand for coal from China. Our inability to maintain our competitive position as a result of these or other factors could materially and adversely affect our business, prospects, financial condition and results of operations.

### **Coal prices are cyclical and subject to significant fluctuation.**

Our operational results are highly dependent on world coal prices, which tend to be cyclical and subject to significant fluctuation. The world coal markets are sensitive to changes in coal mining capacity and output levels, patterns of demand and consumption of coal and changes in the world economy. Improved distribution of Australian coking coal, an economic downturn in China or Asia in general or a change in Chinese government policy restricting coking coal imports could reduce world coking coal prices from current levels. The occurrence of any of these events can have a significant impact on selling prices of our coal. Historically, Chinese coking coal and coal-related product markets have at times experienced alternating periods of increased demand that caused production capacity, volumes, prices and margins to increase, followed by periods of excess supply that caused prices and margins to decline. In general, the volatility and cyclicity in coal prices are now linked to the development of the Chinese economy and in particular activities of steel producing companies in China. Negative trends in coal prices would have a direct negative impact on our business prospects and financial condition.

The DAP GM HCC price realised by the Group declined to an average of USD108.4 per tonne in 2012, and further declined to an average of USD92.1 per tonne in 2013. Prices continued to decrease in 2014 due to world supply and demand imbalance, with the DAP GM price further declining to an average of USD72.7 per tonne in the first half of 2014.

In the first half of 2014, the Group sold approximately 1.9 Mt of HCC and approximately 1.2 Mt of middlings. In the third quarter of 2014, while the Mongolian coking coal exports to China declined by approximately 26% compared to the same period in the previous year according to Mongolian Statistical Information Service, coinciding with an overall decline in coking coal imports in China during the same period, the Group exported approximately 1.0 Mt of HCC and approximately 0.2 Mt of middlings.

There is no assurance that Chinese demand for coking coal and coal-related products will continue to grow, or that the Chinese coking coal and coal-related markets will not experience excess supply in the future. A significant increase in the supply of, or decrease in the demand for, coking coal and coal-related products may cause the average selling prices of our coal products to decrease and therefore have material adverse effect on our business, prospects,

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## RISK FACTORS

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financial condition and results of operations. Although we have entered into supply agreements with terms ranging from one to ten years with several of our customers, most of these agreements provide that the price of coal sold is determined monthly based on market prices and therefore do not protect against declines in world coal prices. An extended or substantial decline in world coal prices or the price of our coal may materially and adversely affect our business, prospects, financial condition and results of operations.

There is no assurance that the price of coal, production volume and sales revenue will increase from or stay at the current level. Such market factors may have a material adverse effect on the business, results of operations and financial condition of our business and, ultimately, may materially and adversely affect our results of operations and financial condition.

Commencing from the first quarter of 2014, the Company has undertaken initiatives to sell coal on C&F terms whereby it delivers coal to the customers' location rather than selling at the GM stockyard under DAP terms. The Company believes that this sales channel structure allows achievement of higher margin on sales despite the costs associated with distributing it to the customers' location. The Company cannot however provide assurance that this strategy will ultimately be successful and whether it will be able to achieve a higher price of coal as a result of employing this strategy.

The Company may not be able to successfully arrange transportation and logistics within Chinese territory and therefore, it may not be able to provide uninterrupted supply to targeted end-users. End users may prefer to purchase through their own subsidiary or trading firms and may not be interested in C&F terms. There could be risk of payment and settlement, as some payments take time to be transacted and/or if cost of selling under C&F terms, including but not limited to financial and logistics, becomes higher than other terms then the Company may prefer to sell at trade terms other than C&F terms.

**The Government of Mongolia could determine that any one or more of our mines in Mongolia is a Mineral Deposit of Strategic Importance and could take an equity, production, profit sharing or other interest in any of our mine operations.**

Pursuant to the Law on Minerals (2006), the Parliament has wide discretion to designate mineral deposits to be Mineral Deposits of Strategic Importance. The Government of Mongolia is entitled to participate on an equity basis with the license holder in the exploitation and/or mining of each Mineral Deposit of Strategic Importance on terms to be negotiated between the Government of Mongolia and such license holder. Details of any minerals reserves must be filed by the relevant license holder with the Government of Mongolia, and those deposits on the Strategic Deposits List represent most of the largest and highest profile deposits in Mongolia. In addition to deposits currently on the Strategic Deposits List and the additional Tier 2 Deposits List, the Parliament may at any time designate other deposits not yet currently on either list to be Mineral Deposits of Strategic Importance, add such deposits to either the Strategic Deposits List or the Tier 2 Deposits List and, in the former case, commence negotiations with the relevant license holder with respect to the terms under which the Government of Mongolia will take an interest in such deposit.

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## RISK FACTORS

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In accordance with the Amendments made on 1 July 2014 to the Law on Minerals, in addition to its authority to include deposits into the list of Mineral Deposits of Strategic Importance, the Parliament is also entitled to make decision to withdraw any deposits from the list of Mineral Deposits of Strategic Importance based upon submission of opinion by the Government of Mongolia. As of the date of this Prospectus, there is no decision made by the Parliament to withdraw any deposits from the Strategic Deposits List or the Tier 2 Deposits List.

Furthermore, pursuant to the Amendment made on 1 July 2014, to the Law on Minerals (2006), the Government of Mongolia is entitled to determine boundary coordinates of the Mineral Deposits of Strategic Importance. Even though, currently there is no decision made by the Government of Mongolia on defining boundary coordinates of any Mineral Deposits of Strategic Importance, there can be no assurance that our licensed areas besides areas of UHG mine could be included in any Mineral Deposits of Strategic Importance and become a subject of regulation of such Mineral Deposits of Strategic Importance.

Under the Law on Minerals (2006), the size of the Government of Mongolia's participation is determined largely by the level of state funding which has been provided for the exploration of any deposit, with the Government of Mongolia entitled to participate up to 50% in the event that there has been state funding for its exploration. However, the Law on Minerals (2006) is vague as to the details and method by which the Government of Mongolia will take its interest and the final arrangements in respect of the Government of Mongolia's interest in each Mineral Deposit of Strategic Importance, including the amount of compensation to be paid to the license holder and the actual form of the Government of Mongolia's interest are subject to negotiation between the Government of Mongolia and the license holder.

In the past, state funds were used to conduct some of the exploration activities of our deposit. On 12 September 2008, we entered into an agreement with the Mineral Resource Authority of Mongolia ("MRAM") and agreed to repay USD1.18 million of state funds used in the historical exploration activities associated with our UHG mine on 11 June 2010.

Moreover, the Law on Minerals (2006) also contains provisions requiring any company which holds a Mineral Deposit of Strategic Importance to list no less than 10% of its shares on the Mongolian Stock Exchange. This particular provision of the Law on Minerals (2006) has not yet been enforced and it is not clear how it will be enforced in practice.

In recent years, there have been a number of proposed amendments to the Law on Minerals (2006) suggested by various parties, many of which have centered on to increase the Government of Mongolia's participating interest in excess of 50%. While the Law on Minerals (2006) provides that the interest of the Government of Mongolia should take the form of an equity interest, based on past practice, and depending on the results of individual negotiations, the interest may be in the form of production or profit sharing or some other arrangement negotiated between the license holder and the Government of Mongolia. There can be no assurance that legislation will not be enacted which further strengthens the Government of Mongolia's right to participate in privately held mineral resources in Mongolia.

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## RISK FACTORS

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In February 2007, the Parliament declared the six mining licenses originally held by us to be Mineral Deposits of Strategic Importance under the Law on Minerals (2006). After taking into consideration the economic development policies of Mongolia, we decided to sign the Minerals License Transfer Agreement with the Government of Mongolia, pursuant to which we agreed to transfer five of our six mining licenses to the Government of Mongolia. We assumed no liability after these five mining licenses were transferred to the Government of Mongolia. We received no cash consideration for the transfer of five of the six mining licenses to the Government of Mongolia. Our UHG deposit is on the list of Mineral Deposits of Strategic Importance, but having entered into the Minerals License Transfer Agreement with the Government of Mongolia, the Government of Mongolia guaranteed that our mining license would not be terminated or amended by requiring state equity participation on the development. Our Mongolian counsel, ELC LLP Advocates, has confirmed that the Minerals License Transfer Agreement is valid, binding and enforceable in accordance with its terms and is binding on the Government of Mongolia. Our Mongolian counsel has also confirmed that the Government of Mongolia has under the Minerals License Transfer Agreement waived its right under the Law on Minerals (2006) to participate jointly with us (by compulsorily taking a 50% or other ownership interest in Energy Resources LLC or the relevant minerals) in the exploitation of the minerals deposit covered by Mining License MV-011952, or withhold any further permits or licenses or access to infrastructure necessary for such exploitation provided that we apply for the same in accordance with relevant rules. However, no assurance can be made that the Government will not take equity or other interest in our UHG mine.

As of the date of this Prospectus, our BN mine has not been designated as a Mineral Deposit of Strategic Importance or included on the Strategic Deposit List or the Tier 2 Deposits List as delineated in the Mongolian Parliamentary Resolution No. 27 dated 6 February 2007. However, there can be no assurance that our BN mine will not be designated as a Mineral Deposit of Strategic Importance or included on either list.

### **Our licenses are subject to termination, renewal and other uncertainties.**

Our most significant licenses are the license covering our UHG deposit located in the Tavan Tolgoi coal formation located in South Gobi Province, which gives us the right to mine coal within the licensed area through 29 August 2036, and our BN mine licenses covering our BN deposit located in South Gobi Province, which gives us the right to mine coal within the licensed area through 1 December 2038 and 24 June 2043, respectively, all of which are extendable twice, each for an additional 20 years, subject to certain conditions. The Government of Mongolia could revoke either of our licenses if we fail to satisfy our obligations, including payment of royalties and taxes to the Government of Mongolia and the satisfaction of certain mining, environmental, health and safety requirements. As we conduct operations through contractors, any failure by these contractors to perform under their operating agreements may result in our failure to satisfy our obligations under our licenses. As a result, our mining licenses could be terminated by the Government of Mongolia, which will materially and adversely affect our business, prospects, financial condition and results of operations. In addition, we may be required to renew or obtain additional minor licenses or permits to facilitate our operations in Mongolia. There can be no assurance that we will be able to obtain and maintain such licenses or permits on terms favorable to us, or at all, for our future intended mining or exploration targets in Mongolia, or that such terms would not be subject to various changes.

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## RISK FACTORS

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**The accuracy of our resource and reserve estimates is based on a number of assumptions and we may produce less coal than our current estimates.**

Our resource and reserve estimates are based on a number of assumptions in accordance with the JORC Code issued by the “Joint Ore Reserves Committee of The Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia”. There can be no assurance that our reserves will be recovered fully. Coal resources and reserves estimates are inherently prone to variability. They involve expressions of judgment with regard to the presence and quality of mineralization and the ability to extract and process the mineralization economically. These judgments are based on a variety of factors, such as knowledge, experience and industry practice. The accuracy of these estimates may be affected by many factors, including the quality of the results of drilling and sampling of the coal deposits and analysis of the coal samples and the procedures adopted and experience of the person(s) making the estimates. There are risks associated with such estimates, including that coal mined may be of a different or inferior quality, volume, overburden strip ratio or stripping cost from the resource estimates. Such estimates may also be revised following further exploration or analysis.

We may at any time commission a new report to update the resource and reserve estimates for our individual deposits. The latest JORC Resource estimates were performed as at 30 June 2012 for UHG deposit, and 30 June 2012 and 31 March 2013 for BN deposit. Latest JORC Reserve estimates were performed for both UHG and BN deposits as at 31 December 2012.

If we encounter mineralization or geological or mining conditions different from those predicted by historical drilling, sampling and similar examinations, we may have to adjust our mining plans in a way that may materially and adversely affect our business, prospects, financial condition and results of operations and reduce the estimated amount of coal resource and reserve available for production and expansion plans.

You should not assume that the Resource quantities estimated are capable of being directly reclassified as reserve quantities under the JORC Code. The inclusion of Resource estimates should not be regarded as a representation that these amounts can be exploited economically. You are cautioned not to place undue reliance on resource and reserve estimates.

**We may be adversely affected by future economic downturns that reduce the demand for steel.**

Any future economic downturn that reduces the demand for steel will have a negative impact on the demand for Chinese steel. While year-on-year growth rates in China’s demand for steel have historically fluctuated dramatically, demand has continued to increase on an aggregate basis. Data from the World Steel Association indicates that China produced 411.9 Mt of crude steel in the first half of 2014, up by 3.0% from the same period of 2013, resulting in compounded annual growth rate of 6.5% since the first half of 2010. As substantially all of our coking coal is currently sold to China and we believe is principally used in the manufacture of steel in China, a reduction in the demand for steel in China would directly reduce the demand for our coking coal.

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### **Disruptions in transportation could adversely affect the demand for our coal.**

Substantially all of our coal production is currently exported to China. We envisage that the situation will remain the same unless a treaty between Mongolian and Chinese governments on transit transportation materialises that would allow the Group to commence exporting to seaborne countries. Inadequate transportation infrastructure on both the Mongolian and Chinese sides of the border affects the pricing terms under which we sell our coal to customers, and the willingness and ability of our customers to purchase coal from us. Our customers factor in any delays and the costs and availability of transportation in determining whether to purchase coal products from us and the prices they are willing to pay.

Our mining operations are highly dependent on road and rail services in Mongolia and in China. A bottleneck in the transportation of coal from our UHG mine to customers in China may arise if the road connecting our UHG mine to the GS border crossing does not have sufficient capacity to support the increased amount of cargo traffic or is affected by external factors such as disruptions caused by bad weather or delays or closures by governmental authorities for any reason.

The hours of operation, the handling capacity and the potential closure of the GS border crossing also affect our ability to expedite the movement of our coal transportation. In January 2012, together with Erdenes MGL, we completed and commissioned an expansion of the GS border crossing to increase the throughput capacity and efficiency. On 16 August 2014, the Government of Mongolia adopted Resolution No. 299 and decided to build border railway with narrow gauge on Shiveekhuren and GS border ports. Moreover on 21 March 2014, the Government of Mongolia also issued Resolution No. 91 whereby it authorised the Erdenes Tavan Tolgoi JSC's Board of Directors to take part in establishment of joint company, named Gashuun Sukhait Railway LLC, which has the prime purpose of undertaking investment and construction of the narrow gauged cross border railway between GS and GM ports.

In line with those decisions, on 7 April 2014, the Company through its indirect wholly owned subsidiary Energy Resources LLC has entered into a Shareholders Agreement with Lodestar Investment Pte Ltd, a wholly-owned subsidiary of China Shenhua Overseas Development and Investment Co., Ltd, Erdenes Tavan Tolgoi JSC, a Mongolian state-owned joint stock company and Tavan Tolgoi JSC, a joint stock company of Mongolia. Upon entering into this Shareholders Agreement the Company holds 17% of equity interest in Gashuun Sukhait Railway LLC.

On 24 October 2014, the Parliament adopted its resolution on "Some Measures on Assuring the Implementation of the State Policy on Railway Transportation" and decided to build railway base structure from Tavan Tolgoi-GS and Khuut-Bichigt using narrow gauge of 1,435 mm.

However, there can be no assurance that the Mongolian and Chinese governments will continue to support further development and expansion of border-crossing handling capacity or that the respective customs authorities will handle our coal shipments in an efficient manner or in priority over other coal or freight being transported by other parties. In addition, the tariff

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## RISK FACTORS

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for railway use may be set by the Government of Mongolia at a level that makes future railway transportation uneconomical when and if UHG-GS railway is completed. There can be no assurance that, in such situations, there would be any other cost effective means of transporting the coal to our primary markets in China. As a result, our coal sales may be constrained and our results of operation adversely affected.

In China, rail and road infrastructure and capacity have in the past been affected by extreme weather conditions, earthquakes, delays caused by major rail accidents, the diversion of rolling stock needed to deliver emergency food relief and seasonal congestion during public holidays. There can be no assurance that these events, or other new events will not occur in the future. In any of these circumstances, customers may not be able to take delivery of our coal, which may lead to delays in payment or refusal to pay for our coal and, as a result, our business, prospects, financial condition and results of operations could be materially and adversely affected.

**Our mining activities are subject to operational risks, hazards and unexpected disruptions.**

Our mining activities are subject to a number of operational risks and hazards, some of which are beyond our control, and could delay the production and delivery of our coal, increase our cost of mining or result in accidents in our mine. These risks and hazards include unexpected maintenance or technical problems, periodic interruptions due to inclement or hazardous weather conditions, natural disasters such as earthquakes, industrial accidents, power, water or fuel supply interruptions or increase in price of such supplies, critical equipment failure, malfunction and breakdowns of information management systems, fires, and unusual or unexpected variations in mineralization, geological or mining conditions. These risks and hazards may result in personal injury, damage to or destruction of properties or production facilities, environmental damage, business interruption, possible legal liability, damage to our business reputation and corporate image and, in severe cases, fatalities. For the three years ended 31 December 2013 and the six months ended 30 June 2014, there were unfortunately a total of three workplace fatalities within company operations. As of 30 June 2014, none of these accidents resulted in a material financial or significant operational impact to our operations. The lost time injury frequency rate during the three years ended 31 December 2013 and the six months ended 30 June 2014 were 1.7, 0.7, 1.2 and 0.7 lost time injuries per million man-hours worked, respectively.

**We are dependent on future cash flows generated from our business and obtaining additional financing to support our business operations and to continue as a going concern.**

We have cash requirements for ongoing operating expenses, working capital, general corporate purposes and for interest and principal payments on our outstanding borrowings. As of 30 June 2014, we recorded net current liabilities of USD25.1 million. If we are unable to generate sufficient revenue and cash flows from our operations or secure additional financing to meet our obligations, we may be forced to reduce expenditures or not be able to continue



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as a going concern. Reduction of expenditures could have a negative impact on our business and would make it more difficult for us to execute our strategy, including our expansion plans in accordance with our expectations. We may be required to make additional payments pursuant to the acquisition agreement for our BN mine, thereby impacting our cash requirements. Please refer to the paragraph headed “We may have to make additional payments under the acquisition agreement for our BN mine” in this Prospectus.

In addition, our financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business. Our ability to continue as a going concern is substantially dependent on our profits and cash flows from operations and our ability to obtain continued bank financing to meet our working capital and financing requirements. If there is an adverse change to our profits, cash flow or ability to obtain additional financing, our financial statements may need to be prepared on an alternative authoritative basis and adjustments relating to the recoverability and classification of recorded asset amounts or the classification of liabilities may need to be made.

### **We may not be successful in developing and operating our BN mine.**

We acquired our BN mine in June 2011 and commenced operations at our BN mine in February 2012. The development and operation of coal mines is subject to a broad range of operational, regulatory, geological and economic risks. There can be no assurance that we will be able to successfully develop and operate this mine. As at the date of this Prospectus, as part of the Group’s strategic response to the coal market situation, mining activity within the BN mining license area has been halted, and management has refocused on the operation of the UHG mine. When the operations are active at BN mine, we are engaged in owner mining at our BN mine. We have engaged contractors to mine coal at our UHG mine since its opening and therefore have no direct experience mining coal. We cannot assure you that we will be able to successfully conduct our own mining operations at our BN mine. In addition, while we may undertake a tendering process to engage a contractor for our coal mining operations at our BN mine, there can be no assurance that we would be able to engage a contractor on satisfactory terms, or at all. If we fail to successfully develop and operate our BN mine, we may have to write off all or a portion of the consideration in connection with the acquisition and capitalised exploration expenses, which amounted to USD569.5 million as of June 30, 2014.

### **We may have to make additional payments under the acquisition agreement for our BN mine.**

The total consideration was USD569.5 million for the acquisition of our BN mine on 1 June 2011, consisting of USD100.0 million in cash, a promissory note of USD279.5 million, a convertible bond in the aggregate principal amount of USD85 million and promissory notes of USD105.0 million for Reserve Adjustment. This consideration is subject to adjustments as a result of the production exceeding certain amounts. The maximum amount of additional consideration payable by us pursuant to such adjustments is USD380.5 million. To the extent that any such amounts become payable, particularly at a time when our BN mine does not contribute corresponding amounts of free cash flow to our business, payment of such amounts could adversely affect our financial condition. A failure to pay such amounts would constitute a default under the acquisition agreement and potentially cross defaults under our other existing and future contractual arrangements.

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**The development of any new technology or the use of alternative supply sources in the production of iron and steel may directly impact the demand for coking coal.**

The demand for coking coal is directly correlated with the production of crude steel. As a result, any alternative energy source, such as PCI coal, or any heavy fuel oil injection into blast furnaces, or any new technology in steel production, such as electric arc furnace which omits coke from the steel production process, if adopted by steel manufacturers in China, would negatively affect the demand for coking coal. This could, in turn, materially and adversely affect our business, prospects, financial condition and results of operations.

**We may not be successful in future acquisitions or may encounter difficulties in integrating and developing the acquired assets or businesses.**

We plan to increase our mineral resources through acquisitions of companies with existing exploration rights and additional mining assets. In addition to mining licenses and mining assets, if we are presented with strategically attractive opportunities, we may acquire other businesses or assets that are complementary to our business. We do not have specific timetables for these plans and there can be no assurance that we will be successful in these acquisitions. In addition, we must receive various regulatory approvals or permits in order to develop new reserves or businesses. Our inability to successfully acquire companies with existing exploration rights and additional mining assets, develop mineral resources or obtain necessary governmental approvals may have a material adverse effect on our business, prospects, financial condition and results of operations.

In June 2011, we completed the acquisition of our BN mine. As at the date of this Prospectus, as part of the Group's strategic response to the coal market situation, mining activity within the BN mining license area has been halted, and management has refocused on the operation of the UHG mine. There can be no assurance that we will be able to generate profits through the operation of our BN mine.

Future acquisitions may also expose us to potential risks and unforeseen operating difficulties and expenditures, including risks associated with the assimilation of new technologies, businesses and personnel, unforeseen or hidden liabilities, the diversion of management attention and resources from our existing business and the inability to generate sufficient revenues to offset the costs and expenses of an acquisition. Any difficulties encountered in the acquisition and integration process may have a material adverse effect on our business, prospects, financial condition and results of operations.

**We may acquire and develop non-coal assets.**

As part of our mineral resource expansion strategy, we are considering opportunities to acquire or invest in companies or assets in the steel industry supply chain. If an attractive opportunity presents itself, we may acquire and develop other resources. We have experience only in coal mining, and our experience with coking coal may not be directly relevant to the development of other non-coal resources. There can be no assurance that we will be successful in developing any non-coal assets. Failure to successfully develop non-coal assets, if acquired, could have a material adverse effect on our business, prospects, financial condition and results of operations.

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### **We may dispose of our assets or sell majority or minority stakes in our subsidiaries.**

We may dispose of some of our assets or sell majority or minority stakes in our subsidiaries if we are presented with strategically attractive opportunities, or seek funding opportunities. If we take on joint venture partners, we will be subject to risk associated with jointly owning and managing projects. No assurance can be given that we will or will not engage in, or as to the timing of, any such disposals or joint venture activities and there can be no assurance that we will be successful in these dispositions should they occur.

### **We currently rely on a single source of water for all of our operations.**

Our operations currently depend on a single source of water in the Naimantiin Khundii aquifer which is located approximately 20 km north of our UHG mine. In 2011, we were granted the right to extract water from the Naimantiin Khundii aquifer for 25 years, extendable by an additional five years subject to certain conditions, under the Water Use Agreement signed on 24 May 2011 between the Governor of Tsogttsetsii soum and Ukhaa Khudag Water Supply LLC in accordance with the previous Law on Water (2004). However, pursuant to the renewed Law on Water (2012), the initial period of the water use permission was shortened to a period of up to 10 years and extendable for up to another 5 years. Based on current practice we are entering into water use agreements with the “Galba Uush Doloodiin Gobi Water Basin Authority” on an annual basis, through our wholly owned subsidiaries Energy Resource LLC and Ukhaa Khudag Water Supply LLC. Under the water use agreement entered into by Energy Resources LLC dated 1 January 2014, we are currently using water for CHPP operation, while under the water use agreement entered into by Ukhaa Khudag Water Supply LLC dated 2 January 2014, we are using water for other purposes such as UHG mine, UHG Power Plant operation, campus and other public utilities at Tsogttsetsii soum. The water piped from the Naimantiin Khundii aquifer is supplied to our water supply plant at UHG mine which can supply up to 117 litres per second and the majority of the water is used by our CHPP to wash coal. In addition, we have completed a survey of the Naimdain Khundii aquifer, which may in the future enable us to expand our water supply capacity by approximately 112 litres per second as a second source of water supply. There can be no assurance that these aquifers will provide stable and uninterrupted sources of water in the future, and if these sources were interrupted temporarily or permanently for any reason, including regulatory or practical reasons, or if available volumes become reduced due to competing uses, there can be no assurance that we would be able to source a sufficient amount of water from another location.

If we are unable to operate our CHPP due to a shortage of water, we would not be able to sell washed coal and would have to revert to selling raw coal, which may have less attractive economics or may not be economically viable.

### **Our mining operations are concentrated at one mining site.**

Our mining operations are currently solely concentrated at our UHG mine. In June 2011, we completed the acquisition of our BN mine and commenced operations there in February 2012. As at the date of this Prospectus, as part of the Group’s strategic response to the coal market situation, mining activity within the BN mining license area has been halted, and

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management has refocused on the operation of the UHG mine. Therefore, all of our current operating cash flows and sales are derived from the sale of coal produced from a single mine and we expect operations at our UHG mine to continue to provide substantially all of our production in the near future. Any significant operational or other difficulties in the mining, processing, storing or transporting of coal at or from our UHG mine could reduce, disrupt or halt our coal production, which would materially and adversely affect our business, prospects, financial condition and results of operations.

### **We rely on our contractors to perform key aspects of our operations.**

Currently, we cooperate with Leighton, our mining contractor, and work closely with them in all aspects of mining operations at our UHG mine. We entered into a long-term contract with Leighton to undertake overburden removal, coal extraction and mine reclamation activities. Substantially all of the principal mining equipment used in our UHG mine is sourced through Leighton and their expatriate personnel supervise our mining operations. Actual mining activities are conducted by our employees who have been trained by Leighton personnel.

Failure by Leighton or any of our other contractors to perform their respective contractual obligations or the loss of their services could materially and adversely affect our business, prospects, financial condition and results of operations. If Leighton terminated their contract with us, the amount of remedies we will be able to receive may not be sufficient to cover losses we may sustain. There can be no assurance that replacement contractors could be found in a timely manner or at all, or would be able to perform at the same levels, at the same prices or on the same terms as our current contractors if any of our contractors cease to perform their services or terminate their contracts with us. In addition, if we decide to terminate our agreement with Leighton, we will be required to purchase the equipment at transparent and agreed written down value.

### **Our dependence on our major customers may cause significant fluctuations or declines in our revenues.**

Substantially all of our coal production is exported into China and we have a concentrated group of major customers. For the three years ended 31 December 2013, our sales to our five largest customers accounted for 87.9%, 81.1% and 92.4%, respectively, of our total sales. For the three years ended 31 December 2013, our sales to our single largest customer accounted for 34.1%, 35.5% and 44.9%, respectively, of our total sales. Although we are planning to expand our customer base, we anticipate that our dependence on our major customers will continue in the near future. There can be no assurance that we will be able to retain these customers or that they will maintain current level of business with us. If there is a reduction or cessation of orders from any of these customers for any reason, our business, prospects, financial condition and results of operations will be materially and adversely affected.

We extend credit to certain of our customers with whom we have long-term supply agreements. Our ability to receive payments for coal sold and delivered depends on the continued creditworthiness of our customers. Competition with other coal suppliers could force

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us to extend credit to customers and on terms that could increase the risk of payment default. The bankruptcy of any of our customers could materially and adversely affect our business, prospects, financial condition, and results of operations.

**Our insurance may not be adequate to cover losses or liabilities that may arise.**

We do not maintain adequate insurance against some operational and infrastructural risks and natural disasters. In particular, we do not have insurance coverage for acts or omissions of our contractors. Under the mining contracts, insurance against risks or loss to operations is provided by our mining contractors for each of the relevant mining areas. However, some of our contractors may not carry adequate liability coverage.

We have obtained insurance policies from global insurers including Zurich, Munich Re and Swiss Re covering property damage for our mining properties and business interruption. Such policies may not be adequate to cover all losses or liabilities that may be incurred by us or our contractors. Also, insurance may only be available at premium levels that are prohibitively expensive. As a result, losses incurred or payments we may be required to make may have a material adverse effect on our business, prospects, financial condition and results of operations to the extent such losses or payments are not insured or the insured amount is not adequate.

**Increases in the costs, or our accessibility to sources, of fuel could negatively affect our operating costs or disrupt or delay production.**

Fuel is supplied to us by several of Mongolia's largest fuel suppliers. Such suppliers source substantially all of their fuel from Russia. There is no assurance that we would be able to source the requisite amounts of fuel necessary to run our operations if there were an interruption in the fuel supply from Russia to Mongolia or from the suppliers to us.

We directly bear the costs of fuel. We do not engage in any fuel hedging arrangements to cover our fuel price risk. Any significant increases in the price or shortage of fuel would cause a corresponding increase in our costs or limit our operations, either of which could result in termination of sales contracts by our customers and materially and adversely affect our business, prospects, financial condition and results of operations.

**Issues with local communities may materially and adversely affect our business.**

Issues with the local communities surrounding the areas where we operate might arise from the implementation of our business activities, including disputes related to settlement relocation. These issues may result in community protests, blocking of road and third party claims. The failure to successfully settle any local community issues could divert our management's attention and resources and have a material and adverse effect upon our business, reputation, prospects, financial condition and results of operations.

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**Our business depends substantially on the continuing efforts of our executive officers and our mining contractors and our ability and the ability of our mining contractors to attract and retain qualified technical personnel.**

Our business depends substantially on the continued services of our executive officers and, to a significant extent, on our ability to attract, train and retain qualified technical personnel, particularly those with expertise in coal mining and production. There can be no assurance that we will be able to attract or retain qualified technical personnel. If one or more of our executive officers or key employees were unable or unwilling to continue their service with us, we might not be able to replace them with persons of equivalent expertise and experience within a reasonable period of time or at all. If any of our executive officers or key employees joins a competitor or forms a competing company, we may lose customers, suppliers, know-how and key personnel and staff members. If any dispute arises between such employees and us, there can be no assurance as to the extent to which any non-competition undertakings of such employees could be enforced in our favor or at all. These executive officers and key employees primarily include Mr. Odjargal Jambaljamts, Dr. Battengel Gotov, Mr. Oyunbat Lkhagvatsend, Ms. Ulemj Baskhuu, Mr. Samuel Bowles and Ms. Uurtsaikh Dorjgotov. If we lose any of the foregoing executive officers and key employees, our business may be severely disrupted, our financial condition and results of operations may be materially and adversely affected, and we may incur additional expenses to recruit, train and retain personnel. Furthermore, some of our technical personnel are trained by our contractors. If our contractors cease to train our technical personnel, we may not be able to train or find qualified parties to train our technical personnel. In addition, we believe that our future success will depend on our contractors' continued ability to attract and retain their own skilled and qualified personnel. Any difficulty in our contractors' ability to attract, recruit, train and retain skilled and qualified personnel could materially and adversely affect our operations. As our business has grown and is expected to continue to grow rapidly, our ability to train and integrate new employees into our operations may not meet the growing demands of our business.

**The interests of our principal Shareholder, MCS Mining Group Limited, may differ from those of our other Shareholders.**

As at the Latest Practicable Date, MCS Mining Group Limited indirectly owned approximately 33.50% of our issued share capital. Accordingly, MCS Mining Group Limited has substantial influence over our business, including decisions regarding mergers, consolidations and the sale of all or substantially all of our assets, election of directors and other significant corporate actions, timing and amount of our dividend payments, and otherwise controls or influences actions that require the approval of our Shareholders. We believe that third parties may be discouraged from making a tender offer or bid to acquire us because of this concentration of ownership.

**Foreign currency fluctuations could affect expenses and any future earnings.**

We are exposed to foreign exchange fluctuations with respect to the MNT, the RMB and the USD. Our financial results are reported in USD. The salaries for local employees in Mongolia are paid in MNT. Sales of coal into China have been and may continue to be settled

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in RMB and USD. Since our headquarters is in Ulaanbaatar, Mongolia, a portion of our expenses are in MNT. As a result, our financial position and results are impacted by the exchange rate fluctuations between the aforementioned currencies and the USD.

**Our results of operations are subject to economic, political and legal developments in China.**

We expect that substantially all of our sales will be made to customers based in China, unless if Mongolian and Chinese government treaty of transport shipment materialises and open exits to seaborne markets. Accordingly, the economic, political and social conditions, as well as government policies, of China may affect our business. Chinese economy differs from the economies of most developed countries in many respects, including: (i) structure; (ii) level of government involvement; (iii) level of development; (iv) growth rate; (v) control of foreign exchange; and (vi) allocation of resources. The Chinese economy has been transitioning from a planned economy to a more market-oriented economy. For the past three decades, the Chinese government has implemented economic reform measures emphasizing the utilization of market forces in the development of the Chinese economy. Changes in Chinese political, economic and social conditions, laws, regulations and policies could materially and adversely affect our business, prospects, financial condition and results of operations.

The growth of the Chinese economy has been uneven across different geographic regions and different economic sectors. In order to stabilise national economic growth, the Chinese government may adopt macroeconomic policies that include measures to restrict excessive growth in specific sectors of the economy, such as the steel industry. We cannot predict future economic reforms or the effects that any such measure may have on our business, prospects, financial condition or results of operations. The Chinese government exercises significant control over the growth of the Chinese economy through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies as it deems fit. In the past, the Chinese government has implemented a number of measures, such as raising bank reserves against deposit rates to place additional limitations on the ability of commercial banks to make loans and raise interest rates, in order to suppress the growth of specific segments of the Chinese economy which it believed to be overheating. These actions, as well as future actions and policies of the Chinese government to exert influence over certain segments of the economy, could materially and adversely affect the level of overall economic activity and our Chinese customers' liquidity and access to capital and hence, in turn, affect our ability to operate our business.

In addition, there can be no assurance that the Chinese economy will continue to grow, or that its growth will be steady or in geographic regions or economic sectors to our benefit. Since substantially all of our sales will be made into China, we depend heavily on general economic conditions in China for our continued growth. A downturn in China's economic growth or a decline in its economic conditions may have a material adverse effect on our business, prospects, financial condition and results of operations.

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**The Chinese government may impose restrictions on the import of Mongolian coal or adopt policies favorable to Chinese coal producers.**

The Chinese government announced that, commencing in 2015, certain areas including the southern Pearl River Delta, eastern Yangtze River Delta and three northern cities including Beijing, Tianjin and Hebei will be banned from burning coal with more than 16 percent ash and 1 percent sulfur, according to the National Development and Reform Commission (“NDRC”). It will also implement a ban on domestic mining, sale, transportation and imports of coal with ash and sulfur content exceeding 40 percent and 3 percent, respectively. In the case of coal to be transported more than 600 km from the production site or receiving ports, the minimum energy requirement shall be 3,940 kcal/kg, with a maximum ash and sulfur content of 20 percent and 1 percent, respectively. While such bans and restrictions may not affect our coking coal products, they may to certain extent affect our by-product middlings.

Moreover, on 15 October 2014, the Chinese government introduced coal import taxes of 3% for coking coal and anthracite, as well as 5-6% for thermal coal, which may adversely affect our attempts to increase selling prices. In consideration of these measures, there can be no assurance that the Chinese government will not directly or indirectly implement any restrictions or adopt any preferential policies in the future. The Chinese government may do so for a number of reasons, including but not limited to, a policy to support domestic Chinese coking coal producers. If we are unable to sell our coal into China on commercially viable terms or at all, there can be no assurance that we will be able to sell our coal to customers in any other jurisdiction. Furthermore, as all our coal currently passes through China, any restriction on the transport of Mongolian coal through China will effectively prohibit our coal from reaching any of our Chinese customers or potential overseas customers.

**Our mining operations are exposed to environmental risks.**

All phases of our operations are subject to environmental regulations in the various jurisdictions in which we operate. For example, our UHG and BN mines are subject to a requirement to meet environmental protection obligations. We must complete an environmental protection plan for the Government of Mongolia’s approval and submit a report prepared by an independent expert on environmental compliance every year.

Failure to comply with applicable laws, regulations and to obtain the necessary permits may result in enforcement actions, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.



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Environmental legislation is evolving in a manner which will likely require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There can be no assurance that future changes in environmental regulation, if any, will not materially and adversely affect our business, prospects, financial condition and results of operations. The Government of Mongolia's approvals and permits are also often required in connection with various aspects of our operations. To the extent such approvals or permits are required and not obtained we may be delayed or prevented from proceeding with planned exploration or development of our mineral properties.

**We are exposed to global and in particular China's efforts to control energy consumption and greenhouse gas emissions.**

In order to improve energy efficiency and to control energy consumption and greenhouse gas emission, greenhouse gas emissions trading schemes have been implemented around the world since 2005.

Being the world's largest developing country and the largest emitter of greenhouse gases, China started to implement pilot carbon emissions trading schemes in seven provinces and cities in 2013 to reduce its carbon intensity by 40-45% in 2020 from 2005 levels. The 12th National Five-year plan has also set two mandatory goals of reducing energy intensity by 16% and reducing carbon intensity by 17% in the term of 2011-2015. The implementation of the carbon emissions trading schemes in China is likely to result in reductions of coal consumption which could materially and adversely affect the Company's business, operations and financial results.

**Information in this Prospectus regarding future plans reflects current intentions and is subject to change.**

Whether we ultimately implement the business plans described in this Prospectus, and whether we achieve the objectives described in this Prospectus, will depend on a number of factors including, but not limited to, the availability and cost of capital; current and projected coal prices; coal markets; availability of heavy equipment, supplies and personnel; and success or failure of activities in areas similar to those in which our projects are situated. Accordingly, our plans and objectives may change from those described in this Prospectus.

**Inclement weather may adversely affect our operations.**

Inclement weather may require us to evacuate personnel or curtail operations and may cause damage to our mine site, transportation roads and loading facilities. This could result in the temporary suspension of operations or generally reduce our productivity. Since commencement of operation at UHG mine, we have not suspended mining activity for any substantial periods due to inclement weather. We suffered no material losses due to the inclement weather, but there can be no assurance that inclement weather will not cause significant losses in the future. Any damage to our mine site, transportation roads and loading facilities caused by prolonged periods of inclement weather could materially and adversely affect our business, prospects, financial condition and results of operations.

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## **RISK FACTORS**

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### **Destabilising events in other parts of the world could interrupt our business.**

Events related to the terrorist attacks in the United States that took place on 11 September 2001, developments in the Middle East and North Africa, natural disasters and the general weakness of the global economy have increased the uncertainty of global economic prospects in general. We cannot assure you that further terrorist acts or other destabilizing events will not occur in the future. In addition, although such acts and events have not been targeted at or directly affected Mongolia, our assets or those of our customers, we cannot assure you that they will not do so in the future. Our current insurance policies do not cover terrorist attacks or other such destabilizing events. Any terrorist attack, natural disaster or other such event including damage to our infrastructure or that of our customers, could cause interruption to our business and materially and adversely affect our business, financial condition, results of operations, cash flows and prospects.

### **We face risks related to health epidemics and other outbreaks of contagious diseases.**

Our business could be adversely affected by the outbreaks of severe acute respiratory syndrome (“SARS”) or other contagious diseases such as the Ebola virus disease, which is currently an ongoing threat. Mongolia experienced an outbreak of the H1N1 strain of swine influenza in November 2009. The Government of Mongolia imposed a curfew on shops and restaurants, halted long distance transport services and closed schools. Additionally, there have been reports of outbreaks of a highly pathogenic avian flu, caused by the H5N1 virus, in certain regions of Asia and Europe since 2003. In 2010, there were a limited number of reported cases of avian flu in Mongolia although to date there have not been any confirmed cases of human infection. There have been reports on the occurrences of avian flu in various parts of China, including a few confirmed cases of human infection. An outbreak of avian flu in the human population of China could result in a widespread health crisis that has the potential to spread to Mongolia and could adversely affect the economies and financial markets of many countries, particularly in Asia. Additionally, any recurrence of swine influenza or SARS, a highly contagious form of atypical pneumonia, similar to the occurrence in 2003 which affected China, Hong Kong, Taiwan, Singapore, Vietnam and certain other countries, would also have similar adverse effects. As a significant portion of Mongolia’s economy relies on trade with China and as many of our customers have business interests in China, these outbreaks of contagious diseases, or the fear of these outbreaks, and other adverse public health developments in China, could have a material adverse effect on our business, financial condition and results of operations. We have not adopted any written preventive measures or contingency plans to combat any future outbreak, any epidemic or outbreak of disease.

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## RISK FACTORS

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### RISKS RELATING TO MONGOLIA

**Our ability to conduct our business activity in Mongolia is subject to political risk.**

Our ability to efficiently conduct our business activities is subject to changes in government policy or shifts in political attitudes within Mongolia that are beyond our control. Government policy may change to discourage foreign investment, nationalization of mining industries may occur or other government limitations, restrictions or requirements not currently foreseen may be implemented. There can be no assurance that our assets will not be subject to nationalization, requisition or confiscation, whether legitimate or not, by any authority or body. The provisions under Mongolian law for compensation and reimbursement of losses to investors under such circumstances may not be effective to restore the value of our original investment. In addition, Mongolia may experience political instability (such as the recent removal of the Prime Minister by the Parliament and the resignation of the Cabinet). Such instability could have a material adverse effect on economic or social conditions in Mongolia and may result in outbreaks of civil unrest, terrorist attacks or threats or acts of war in the affected areas, any of which could materially and adversely affect our business, prospects, financial condition and results of operations.

**Legislation in Mongolia may be subject to conflicting interpretations.**

The Mongolian legal system exhibits several of the qualitative characteristics typically found in a developing country and many of its laws, particularly with respect to matters of taxation, are still evolving. The legal framework in Mongolia is, in many instances, based on recent political reforms or newly enacted legislation, which may not be consistent with long-standing local conventions and customs. Local institutions and bureaucracies responsible for administering laws may lack a proper understanding of the laws or the experience necessary to apply them in a modern business context. Many laws have been enacted, but in many instances they are neither understood nor enforced and may be applied in an inconsistent, arbitrary manner, while legal remedies may be uncertain, delayed or unavailable. A transaction or business structure that would likely be regarded under a more established legal system as appropriate and relatively straightforward might be regarded in Mongolia as outside the scope of existing Mongolian law, regulation or legal precedent. As a result, certain business arrangements or structures and certain tax planning mechanisms may carry significant risks. In particular, when business objectives and practicalities dictate the use of arrangements and structures that, while not necessarily contrary to settled Mongolian law, are sufficiently novel within a Mongolian legal context, it is possible that such arrangements may be invalidated. The legal system in Mongolia has inherent uncertainties that could limit the legal protections available to us, which include: (i) inconsistencies between laws; (ii) limited judicial and administrative guidance on interpreting Mongolian legislation; (iii) substantial gaps in the regulatory structure due to delay or absence of implementing regulations; (iv) the lack of established interpretations of new principles of Mongolian legislation, particularly those relating to business, corporate and securities laws; (v) a lack of judicial independence from political, social and commercial forces; and (vi) bankruptcy procedures that are not well developed and are subject to abuse.

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## RISK FACTORS

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The Mongolian judicial system has relatively little experience in enforcing the laws and regulations that currently exist, leading to a degree of uncertainty as to the outcome of any litigation. It may be difficult to obtain swift and equitable enforcement, or to obtain enforcement of a judgment by a court of another jurisdiction. In addition, while legislation has been enacted to protect private property against expropriation and nationalization, due to the lack of experience in enforcing these provisions and political factors, these protections may not be enforced in the event of an attempted expropriation or nationalization. Expropriation or nationalization of any of our assets, or portions thereof, potentially without adequate compensation, could materially and adversely affect our business, prospects, financial condition and results of operations.

**Application of and amendments to legislation could adversely affect our mining rights or make it more difficult or expensive to develop our projects and continue mining.**

The Government of Mongolia has, in the past, expressed its strong desire to foster, and has to date protected the development of, an enabling environment for investments in the mining sector. However, there are political constituencies within Mongolia that have espoused ideas that would not be regarded by the mining industry as conducive to investment if they were to become law or official government policy. There can be no assurance that the present government or a future government will refrain from enacting legislation or adopting government policies that are adverse to our interests or that impair our ability to develop and operate our UHG and BN mines.

Mining operations in Mongolia are subject to extensive laws and regulations. These relate to production, development, exploration, exports, imports, taxes and royalties, labor standards, occupational health, waste disposal, protection and remediation of the environment, mine safety, transportation safety and other matters. Compliance with these laws and regulations increases the costs of exploring, drilling, developing, constructing, operating and closing mines and other facilities. It is possible that the costs, delays and other effects associated with these laws and regulations may impact our decision as to whether to continue to proceed with the development of our UHG and BN mines. Since Mongolian legal requirements change frequently, are subject to interpretation and may be enforced to varying degrees in practice, we are unable to predict the ultimate cost of complying with these requirements or their effect on our operations. Although we believe our property ownership interests are valid and in accordance with all applicable rules and regulations, there can be no assurance that the underlying agreements, licenses or legislation upon which our property ownership interests is based will not be interpreted and enforced in a way that materially and adversely affects our rights and obligations. Furthermore, changes in governments, regulations and policies and practices could have an adverse impact on our future cash flows, earnings, results of operations and financial condition.

For example, in 2006, the Government of Mongolia enacted the Law on Minerals (2006). This law preserves to a limited extent some of the substance of the former 1997 minerals legislation, which was drafted with the assistance of legal experts in the area of mining legislation and was widely regarded as progressive, internally consistent and effective.

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## RISK FACTORS

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However, the Law on Minerals (2006) contains new provisions that have increased the potential for political interference and weakened the rights and security of title holders of mineral licenses in Mongolia. Certain provisions of the Law on Minerals (2006) are ambiguous and it is unclear how they will be interpreted and applied in practice. Examples of such provisions include those relating to the designation of a mineral deposit as a Mineral Deposit of Strategic Importance. See “– The Government of Mongolia could determine that any one or more of our projects in Mongolia is a Mineral Deposit of Strategic Importance and could take an equity, production, profit sharing or other interest in any of our projects”.

In addition, the introduction of new Mongolian laws and regulations and the interpretation of existing ones may be subject to policy changes reflecting domestic political or social changes. For example, on 16 July 2009, the Parliament enacted the Law on Mining Prohibition in Specified Areas which prohibits minerals exploration and mining in areas such as headwaters of rivers and lakes, forest areas as defined in the Law on Forest and areas adjacent to rivers and lakes as defined in the Law on Water. New exploration licenses and mining licenses overlapping with the defined prohibited areas will not be granted and previously granted licenses that overlap with the defined prohibited areas will be terminated within five months following the adoption of the Law on Mining Prohibition in Specified Areas. It is not clear whether such termination will only apply to the overlap areas. The Law on Mining Prohibition in Specified Areas provides that affected license holders shall be compensated according to the Government Resolution No. 299 dated 17 November 2010. Government Resolution No. 174, dated 8 June 2011, has determined a portion of the boundaries of certain areas containing gold deposits where exploration and mining operations are prohibited according to the Law on Mining Prohibition in Specified Areas. Subsequently, the Government Resolution No. 194, dated 5 June 2012 has determined the boundaries of the prohibited areas. However, the lists of prohibited areas are amended from time to time, for example, by the Government Resolution No. 260 of 2014 and Government Resolution No. 281 of 2014.

Moreover, on 9 February 2011, the Parliament enacted the Law on Prohibition of Granting New Exploration Licenses which prohibited the granting of new exploration licenses until 30 April 2011. The prohibition was subsequently extended twice to 31 December 2012 and then until renewal of the Law on Minerals. Notwithstanding the invalidation of such law by the Parliament on 1 July 2014, such law severely damaged the development of the Mongolian mining sector and adversely affected investors.

In addition, on 17 May 2012, the Law on Regulation of the Foreign Investments in the Entities Which Operates in Sectors of Strategic Importance was approved by the Parliament which imposed new Parliamentary and Government permission scheme for foreign investors, both foreign state and private, who are willing to invest in sectors of strategic importance, being mining, banking and financial, as well as telecommunication and media sectors. This law was invalidated on 3 October 2014 by the Parliament and replaced with a new Law on Investment, which was adopted on same day. The new Law on Investment requires that only legal entities with the foreign state ownership who are willing to invest more than a controlling package of the entities which operate in the above-mentioned sectors of strategic importance of Mongolia will be required to obtain permission from the respective agency in charge of investment matters.

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## RISK FACTORS

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There can be no assurance that future political and economic conditions in Mongolia will not result in the Government of Mongolia adopting different policies in relation to foreign investors' development and ownership of mineral resources. Any such changes in government or policy may result in changes in laws affecting ownership of assets, environmental protection, labor relations, repatriation of income, return of capital, investment agreements, income tax laws, royalty regulation, government incentive and other areas, each of which may materially and adversely affect our ability to undertake exploration and development activities in the manner currently contemplated. Similarly, any restrictions imposed, or Government of Mongolia charges levied or raised (including royalty fees), under Mongolian law on the export of coal could harm our competitiveness.

**Possible revisions to the Mongolian royalty fee system could adversely affect our financial position.**

On 25 November 2010, the Parliament amended the Law on Minerals (2006). In addition to the previously applied flat 5% royalty on the sale value of all extracted minerals that are sold, shipped for sale or otherwise used, effective from 1 January 2011 we started to pay an additional royalty which is calculated based on the degree to which coal is processed. The additional royalty is based on the monthly comparative price stipulated on the website of the Ministry of Mining of Mongolia and is applied at a progressive rate. On 21 March 2014, the Government of Mongolia adopted methodologies on (i) the Determination and Calculation of Minerals Royalty, and (ii) the Determination of Sales Value of Coal Sold to Foreign Markets for the Calculation of the Royalty. On the same day, it also made an amendment to the Government of Mongolia's Resolution No. 88 of 2007, which defines sources of the mineral product pricing, and ruled to use contract prices for coal sold abroad for the calculation of the royalty. These resolutions became effective from 1 April 2014 but were renewed and amended on 4 July 2014, according to which, contract prices for the calculation of royalty on coal exported are to be used until 1 January 2015. The level of the progressive royalty rate depends on the level of processing of the minerals. The more processed the minerals are, the lower the progressive royalty rate will be. For example, the progressive royalty rate for raw coal is from 1% to 5% if coal price is above the threshold price of USD25 per tonne. If coal is processed, the progressive royalty rate will be lower, being 1% to 3%. There is no assurance that the Government of Mongolia will not change the royalty calculation method. We incurred USD48.2 million, USD34.8 million, USD26.6 million and USD8.6 million as royalty to the Government of Mongolia for the three years ended 31 December 2013 and six months ended 30 June 2014, respectively. There can be no assurance that the Government of Mongolia will not further increase royalty rates on the sale value of extracted minerals.

**Weaknesses relating to the Mongolian legal system and Mongolian legislation create an uncertain environment for investment and business activity.**

The legal system in Mongolia is at an early stage of development and has various uncertainties that could limit the full legal protections that may be available to Shareholders in more developed countries. The following risks relating to the Mongolian legal system create uncertainties, many of which rarely exist in countries with more developed market economies:

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## RISK FACTORS

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- inconsistencies among, or uncertainties in the application or official interpretation of, laws, decrees, orders and regulations, and regional and local rules and regulations, as a result of limited judicial guidance, lack of stare decisis or established precedents and other factors;
- limited judicial guidance on interpreting Mongolian legislation;
- gaps in the regulatory structure due to delay in, or absence of, implementing regulations;
- the lack of experience of judges and courts in interpreting new principles of Mongolian legislation, particularly those relating to securities laws;
- a relatively high degree of discretion on the part of governmental authorities; and
- bankruptcy procedures that are not well developed and are subject to abuse.

In general, the Mongolian judicial system is relatively inexperienced in enforcing the laws and regulations that currently exist, leading to a degree of uncertainty as to the outcome of any litigation. The Mongolian judicial system may also favor Mongolian parties over foreign companies and individuals. Further, it may be difficult to obtain swift and equitable enforcement, or to obtain enforcement of a judgment by a court of another jurisdiction. The introduction of new Mongolian laws and regulations and the application or interpretation of existing ones may be subject to policy changes reflecting domestic political or social changes. As the Mongolian legal system continues to develop, we cannot assure you that changes in such legislation or application or interpretation thereof will not have a material adverse effect on our business, financial condition, results of operations and future prospects.

In addition, while legislation has been enacted to protect private property against expropriation and nationalization, due to the lack of experience in enforcing these provisions and political factors, these protections may not be enforced in the event of an attempted expropriation or nationalization. Expropriation or nationalization of any of our businesses, our assets or portions thereof, potentially without adequate compensation, could have a material adverse effect on our business and prospects and on the trading price of the Shares.

**Certain facts and statistics contained in this Prospectus have come from official government sources or other industry publications, the reliability of which cannot be assumed or assured.**

Certain facts and statistics in this Prospectus related to Mongolia, its economy and the industries in which we operate, are derived directly or indirectly from official government sources generally believed to be reliable. While we have taken reasonable care to reproduce such information, we cannot guarantee the quality and reliability of such source material. These facts and statistics have not been independently verified by us, the Initial Purchasers or any of our or their respective affiliates or advisors or any other parties involved in this offering

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## RISK FACTORS

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and, therefore, we make no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside Mongolia and may not be complete or up-to-date. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice, the facts and statistics in this Prospectus may be inaccurate and the statistics may not be comparable to statistics produced for other economies. Further, there can be no assurance that they are stated or compiled on the same basis or with the same degree or accuracy as may be the case elsewhere. In all cases, investors should give consideration as to how much weight or importance they should attach to or place on all such facts and statistics.

### **Mongolia may experience political and social instability.**

Since the collapse of communist regime in 1990, Mongolia has experienced a process of democratic change, resulting in political and social events. Prior to 1990, Mongolia was a socialist country and the only functioning political party was the Mongolian People's Revolutionary Party, which later in 2010 changed its name into "Mongolian People's Party" (the "MPP"). In March 1990, due to extended street protests carried out in public and popular demands for faster reform, the political bureau of the MPP resigned. In May 1990, the constitution was amended, which removed the MPP's role as the guiding force in the country, and legalised opposition parties created a standing legislative body and established the office of president.

The MPP and the Democratic Party are two of the main political parties in Mongolia. The MPP was the ruling party for the first half of the 1990s and was succeeded by the Democratic Party until MPP regained control of the Parliament in 2000. Following a political realignment in 2006, when a new coalition government was formed, the MPP won the majority of seats in Parliament again in 2008. However, there were allegations of fraudulent practices in the elections made by the chairman of the Democratic Party. The Mongolian General Committee of Elections dismissed these allegations and confirmed that the MPP had won the majority of seats in Parliament. The election results triggered strong protests and riots and the Government declared a state of emergency, which was lifted after four days.

At 2012 election, no party won majority seats in the Parliament, and coalition Government was established by the Democratic Party, Justice Coalition and Civil Will-Green Party.

The Democratic Party nominee, incumbent President Mr. Elbegdorj Tsakia holds presidential seat as a result of Presidential Election carried out in 2013.

Although Mongolia's transition to democracy has been relatively peaceful and there is representation of various political parties in the Government, tension continues to exist between the governing coalition partners. We cannot assure you that events similar to those described above will not occur in the future and on a wider scale, or that such disturbances will not, directly or indirectly, have a material adverse effect on our business. Elections will be held in June 2016 and May 2017 to elect a new Parliament and President, respectively. Future



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## RISK FACTORS

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changes in the Government, the ruling party, major policy shifts or lack of consensus between the various political groups could lead to political instability could also have a material adverse effect on our business. In addition, the possibility of political instability and uncertainty could adversely affect trading in the Shares and have a significant adverse impact on the economy of Mongolia, and investors may adopt a more cautious approach towards Mongolia's securities markets or investments in Mongolia in general, and such factors could adversely affect trading in the Shares.

### **RISKS RELATING TO THE RIGHTS ISSUE**

**Unless you take up all of your nil-paid Rights Shares and subscribe for the Rights Shares provisionally allotted to you, this offering will dilute your investment and proportionate ownership interest in the Company.**

If you choose not to take up your nil-paid Rights Shares fully, your proportionate ownership and voting interest in the Company will be diluted. Even if you elect to sell your nil-paid Rights Shares prior to the expiration of the applicable trading period, or such nil-paid Rights Shares are sold on your behalf, the consideration received may not be sufficient to compensate you fully for such dilution of your proportionate ownership and voting interest in the Company.

**The market prices of Shares may fluctuate and may fall below the Subscription Price prior to the expiration of the subscription period.**

Once you take up your nil-paid Rights Shares pursuant to this Rights Issue, you may not revoke such take up. Although the Subscription Price of HK\$0.28 for the Rights Shares represented a discount to the closing price of HK\$1.03 on the Last Trading Day, the market prices of the Shares may fall below the Subscription Price prior to the expiration of the subscription period as a result of, among other things, global or the PRC's economic or political conditions, the market's perception of the likelihood of completion of this offering, regulatory changes affecting the Group's operations and variations in the Group's financial results. Many of these factors are beyond the Group's control. If you take up your nil-paid Rights Shares and the market price of the Shares trades below the Subscription Price on the date the Rights Shares are issued to you in respect of such nil-paid Rights Shares, you will have purchased the Rights Shares at prices higher than the market price. Any decrease in market prices may continue after the completion of this offering and, as a result, you may not be able to sell such Rights Shares at a price equal to or greater than the Subscription Price.

**Our Controlling Shareholder has pledged certain Shares to third parties and such Shares may be subsequently disposed as a result of such pledge, thereby affecting our share price.**

MCS Holding LLC, an affiliate of MCS Mining Group, obtained loan facilities from lenders including an affiliate of BNP Paribas in 2012 (the "**Loan Facilities**"), that are secured by a charge of 1,148,190,630 Shares held by our Controlling Shareholder, MCS Mining Group, representing approximately 31.0% of the total issued share capital of the Company. Pursuant

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## RISK FACTORS

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to the Irrevocable Undertaking entered into by MCS Mining Group, the Shares held by MCS Mining Group are restricted from, among other things, being charged or pledged for a period of 90 days after the first day of trading of the Rights Shares in fully-paid form on the Stock Exchange. As Shares pledged to the lenders under the Loan Facilities are exempted from such lock-up, MCS Mining Group may be required to pledge further Shares, including any Rights Shares, to the lenders under the Loan Facilities pursuant to certain provisions and covenants of the Loan Facilities. In addition, in the event of any default by MCS Holding LLC of the provisions and covenants of the Loan Facilities, the lenders will have the right to dispose of the pledged Shares and any such disposal may adversely affect the share price of the Company.

**An active trading market for nil-paid Rights Shares may not develop on the Stock Exchange or any over-the-counter trading market and, even if a market does develop, the trading price of nil-paid Rights Shares may fluctuate.**

A trading period has been set for nil-paid Rights Shares from 5 December 2014 (Friday) to 12 December 2014 (Friday) (both days inclusive). There is no assurance that an active trading market in nil-paid Rights Shares on the Stock Exchange will develop during the applicable trading period for nil-paid Rights Shares or that any over-the-counter trading market in nil-paid Rights Shares will develop. Even if an active market develops, the trading price of nil-paid Rights Shares may be volatile and subject to the same factors affecting the price of the Shares.

**The Subscription Price is not an indication of the Group's underlying value.**

Consistent with the customary practice for a rights issue, the Subscription Price was determined on the Price Determination Date based on a discount to the recent closing price of the Shares. The Subscription Price does not bear a direct relationship to past operations, cash flow, earnings, financial conditions or any other established criteria for value and you should not consider the Subscription Price to be any indication of our underlying value.

**You may not be able to participate in future rights issues or to elect to receive stock dividends and may experience dilution of your shareholdings.**

The Company may, from time to time, distribute additional rights to the Shareholders, including rights to acquire securities. The Company will not distribute rights to Shareholders, unless the distribution and sale of rights and the securities to which these rights relate are either exempt from registration under the applicable securities laws of the relevant jurisdictions, including the US Securities Act, with respect to all holders of the Company's Shares, or are registered or qualified under the applicable securities laws of relevant jurisdictions, including the US Securities Act. There can be no assurance that the Company will be able to establish an exemption from registration under the applicable securities laws of any jurisdictions, including the US Securities Act, and the Company is under no obligation to file a registration statement or other similar document with respect to these rights or underlying securities or to endeavor to have a registration statement declared effective under the applicable securities laws of any jurisdictions, including the US Securities Act. Accordingly, Shareholders may be

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## RISK FACTORS

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unable to participate in rights offerings and may experience dilution of their holdings as a result. In addition, if the Company is unable to sell rights that are not exercised or not distributed or if the sale is not lawful or reasonably practicable, the Company will allow the rights to lapse, in which case Shareholders will receive no value for these rights.

The Company may offer, from time to time, a stock dividend election to all Shareholders, subject to applicable securities laws, in respect of future dividends. The Company will not, however, permit Shareholders to exercise such election unless the issuance of its Shares pursuant to such election is either exempt from registration or qualification under the applicable securities laws of the relevant jurisdiction, including the US Securities Act, or registered or qualified under the applicable securities laws of the relevant jurisdiction, including the US Securities Act. There can be no assurance that the Company will be able to establish an exemption from registration or qualification under the applicable securities laws of any jurisdiction, including the US Securities Act, and the Company is under no obligation to file a registration statement or other similar document with respect to the Shares or other securities issuable pursuant to these elections or to endeavor to have a registration statement declared effective under the applicable securities laws of any jurisdictions, including the US Securities Act. In addition, the Company may choose not to offer such elections to holders of the Shares, and may instead offer Shareholders dividends in the form of cash only. Accordingly, Shareholders may be unable to elect to receive dividends in the form of Shares or other securities rather than cash and, as a result, may experience dilution of their holdings.

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## LETTER FROM THE BOARD

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### **MONGOLIAN MINING CORPORATION**

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

**(Stock Code: 975)**

*Executive Directors:*

Mr. Odjargal Jambaljamts (*Chairman*)  
Dr. Battsengel Gotov (*Chief Executive Officer*)

*Non-executive Directors:*

Mr. Batsaikhan Purev  
Dr. Oyungerel Janchiv  
Mr. Od Jambaljamts  
Mr. Gankhuyag Adilbish

*Independent non-executive Directors:*

Mr. Ochirbat Punsalmaa  
Mr. Unenbat Jigjid  
Mr. 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

3 December 2014

*To the Shareholders*

Dear Sir or Madam,

**PROPOSED RIGHTS ISSUE ON THE BASIS OF THREE RIGHTS  
SHARES FOR EVERY TWO EXISTING SHARES HELD ON THE  
RECORD DATE AT HK\$0.28 PER RIGHTS SHARE**

**INTRODUCTION**

Reference is made to the Announcement and Circular. On 31 October 2014, the Board announced that the Company proposed to raise not less than approximately HK\$1,556 million and not more than approximately HK\$1,567 million, before estimated expenses, by issuing not less than 5,557,554,750 Rights Shares and not more than 5,597,079,750 Rights Shares to the Qualifying Shareholders by way of the Rights Issue at the Subscription Price of HK\$0.28 per Rights Share on the basis of three Rights Shares for every two existing Shares by a Qualifying Shareholder held on the Record Date. Fractional entitlements will not be allotted but will be aggregated and sold for the benefit of the Company. The Rights Issue will not be available to the Non-Qualifying Shareholders.

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## LETTER FROM THE BOARD

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Since there was no new Share being issued or repurchased by the Company on or before the Record Date, the total number of issued Shares on the Record Date was 3,705,036,500 Shares, and accordingly the Company will issue 5,557,554,750 Rights Shares to the Qualifying Shareholders.

At the EGM held on 24 November 2014, the relevant resolution approving, among other things, the Rights Issue, was duly passed by the Independent Shareholders by way of poll.

Each of MCS Mining Group, our Controlling Shareholder, Novel Holdings Group Limited, Trimunkh Limited, Sumberu Limited, Eco Mogul Limited, Inter Group Mongolia Limited, Gera Investments Limited, Benu Investment Limited, Crystalline Investment Limited, Tamirana Limited, Tugs Investment Limited, Shunkhlai Mining, Kerry Mining (UHG) Limited, Lotus Amsa Limited, Highline Holdings Limited, True Kind Limited, Anand & Co. Holding Limited and Botgo Limited (which held 1,241,150,586 Shares, 184,659,019 Shares, 106,304,907 Shares, 27,927,529 Shares, 13,782,736 Shares, 10,120,113 Shares, 11,811,657 Shares, 3,327,908 Shares, 5,051,079 Shares, 1,971,079 Shares, 11,819,579 Shares, 183,000,000 Shares, 300,000,000 Shares, 112,833,333 Shares, 47,000,000 Shares, 18,833,334 Shares, 47,000,000 Shares and 112,833,333 Shares, respectively, as at the Latest Practicable Date, representing approximately 33.50%, 4.98%, 2.87%, 0.75%, 0.37%, 0.27%, 0.32%, 0.09%, 0.14%, 0.05%, 0.32%, 4.94%, 8.10%, 3.05%, 1.27%, 0.51%, 1.27% and 3.05% of the total number of the existing Shares in issue, respectively) has irrevocably undertaken to the Company and the Joint Underwriters pursuant to the Irrevocable Undertakings that, each of them will, among other things, (a) take up its entitlement to the Rights Shares under the Rights Issue pursuant to the terms of the Rights Issue in respect of the Shares legally and beneficially owned (as the case may be) by it as at the date of the Irrevocable Undertaking or the Record Date (as the case may be); (b) lodge the PALs with the Registrar with full payment therefor in accordance with the Rights Issue and not to revoke the submission of such PALs; (c) not dispose of or transfer (directly or indirectly, including without limitation by the creation of any option, charge or encumbrance or rights over or in respect of) any of its rights to subscribe for Rights Shares (in the form of Rights Shares in nil-paid form) up to and including the last date for acceptance and payment in respect of provisional allotments under the Rights Issue; and (d) not dispose of or transfer (directly or indirectly, including without limitation by the creation of any option, charge or encumbrance or rights over or in respect of) its legal and beneficial interests (as the case may be) in any of the Shares owned by it as at the date of the respective Irrevocable Undertaking from the date of the respective Irrevocable Undertaking up to and including the Record Date.

The Rights Issue (other than the Rights Shares that will be provisionally allotted to the Irrevocable Undertaking Covenantors pursuant to the Irrevocable Undertakings) will be fully underwritten by the Joint Underwriters, on the terms and subject to the conditions of the Underwriting Agreement.

The purpose of this Prospectus is to provide you with, among other things, further information regarding the details of the Rights Issue.

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## LETTER FROM THE BOARD

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### RIGHTS ISSUE

Details of the Rights Issue are set out below:

#### Issue Statistics

Basis of the Rights Issue	:	Three Rights Shares for every two existing Shares held on the Record Date
Subscription Price	:	HK\$0.28 per Rights Share
Number of Shares in issue on the Record Date	:	3,705,036,500 Shares
Number of Rights Shares to be issued under the Rights Issue	:	5,557,554,750 Rights Shares
Amount to be raised	:	Approximately HK\$1,556 million, before estimated expenses
Joint Underwriters	:	BNP Paribas and J.P. Morgan
Enlarged number of Shares in issue upon completion of the Rights Issue	:	9,262,591,250 Shares (assuming no new Shares (other than the Rights Shares) are allotted and issued on or before completion of the Rights Issue)

As at the Latest Practicable Date, there are 26,350,000 Share Options which are exercisable to subscribe for an aggregate of 26,350,000 new Shares.

Save as disclosed above, the Company has no outstanding convertible securities or options in issue or other similar rights which confer any right to convert into or subscribe for Shares as at the Latest Practicable Date. The Company also has no intention to issue or grant any warrants, options and/or convertible securities on or before the Record Date.

The total number of 5,557,554,750 Rights Shares represents 150% of the Company's total number of Shares in issue as at the Latest Practicable Date and represents approximately 60% of the Company's Shares in issue as enlarged by the Rights Issue.

As at the Latest Practicable Date, MCS Mining Group, our Controlling Shareholder, shall subscribe and pay for or procure the subscription and payment for, its entitlement of 1,861,725,879 Rights Shares, being the rights entitlement which will be provisionally allotted to it under the Rights Issue prior to the Latest Time For Acceptance pursuant to the Irrevocable Undertaking.

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## LETTER FROM THE BOARD

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### Subscription Price

The Subscription Price is HK\$0.28 per Rights Share, which is payable in full upon a Qualifying Shareholder accepting the relevant provisional allotment of the Rights Shares or, where applicable, upon application for excess Rights Shares under the Rights Issue or when a renounee of any provisional allotment of the Rights Shares or a transferee of nil-paid Rights Shares applies for the Rights Shares.

The Subscription Price represents:

- (i) a discount of approximately 72.8% to the Last Closing Price;
- (ii) a discount of approximately 51.7% to the theoretical ex-rights price of approximately HK\$0.58 per Share, which is calculated based on the Last Closing Price;
- (iii) a discount of approximately 74.1% to the average of the closing prices of approximately HK\$1.08 per Share as quoted on the Stock Exchange for the five consecutive trading days ending on and including the Last Trading Day;
- (iv) a discount of approximately 74.0% to the average of the closing prices of approximately HK\$1.08 per Share as quoted on the Stock Exchange for the ten consecutive trading days ending on and including the Last Trading Day; and
- (v) a discount of approximately 41.7% to the closing price of HK\$0.48 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

Each Rights Share will have a par value of USD0.01.

The Subscription Price was arrived at after arm's length negotiation between the Company and the Joint Underwriters with reference to, among others, the market price and trading liquidity of the Shares up to and including the Last Trading Day and the prevailing market conditions of the capital market in Hong Kong such as the terms of comparable rights issues by listed issuers in Hong Kong and the general economic climate. The Directors consider that issuance of new shares by way of rights issue at a discount to the market price of the shares have been commonly adopted by listed issuers in Hong Kong in order to increase attractiveness of the rights issue, and given that the Company has been recording net losses for the past two financial years, the Company considers it is necessary to offer a relatively deep discount under the Rights Issue in order to encourage the Shareholders to participate in the Rights Issue and to maintain their shareholdings in the Company and participate in the potential growth of the Group. Each Qualifying Shareholder is entitled to subscribe for the Rights Shares at the Subscription Price in proportion to his/her/its shareholding in the Company held on the Record Date.

In view of the above and after taking into consideration the reasons for the Rights Issue as stated in the section headed "Reasons for the Rights Issue and Use of Proceeds" below, the Directors consider the terms of the Rights Issue, including the Subscription Price and the discount to the relative values (in the range of 41.7% to 74.1%) as indicated above, to be fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE BOARD

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### **Basis of provisional allotment**

The basis of the provisional allotment shall be three Rights Shares (in nil-paid form) for every two existing Shares held by a Qualifying Shareholder on the Record Date.

Application for all or any part of a Qualifying Shareholder's provisional allotment should be made by completing a PAL and lodging the same with a remittance for the Rights Shares being applied for with the Registrar on or before the Latest Time for Acceptance.

### **Qualifying Shareholders**

To qualify for the Rights Issue, a Shareholder or an investor must:

- (i) be registered as a member of the Company on the Record Date; and
- (ii) not be a Non-Qualifying Shareholder.

Qualifying Shareholders who take up their pro-rata entitlement in full will not suffer any dilution to their interests in the Company (except in relation to any dilution resulting from the taking up by third parties of any Rights Shares arising from the aggregation of fractional entitlements). If a Qualifying Shareholder does not take up any of his/her/its entitlement in full under the Rights Issue, his/her/its proportionate shareholding in the Company will be diluted.

### **Distribution of Rights Issue Documents**

The Company will only despatch the Rights Issue Documents to Qualifying Shareholders. To the extent reasonably practicable and legally permitted, the Company will send copies of this Prospectus (without the PAL and the EAF) to Non-Qualifying Shareholders whose names appeared on the register of members of the Company at the close of business on the Record Date for information purposes only; provided that this Prospectus will not be sent to Non-Qualifying Shareholders known by the Company to be resident in the United States.

This Prospectus will not be sent to any Shareholders or Beneficial Owners in the Specified Territories except to those Shareholders or Beneficial Owners who satisfy relevant requirements to the satisfaction of the Company.

Distribution of the Rights Issue Documents into jurisdictions other than Hong Kong may be restricted by law. Any person who receives the Rights Issue Documents (including, without limitation, any agent, custodian, nominee and trustee) should be aware of and comply with the applicable restriction in the relevant jurisdiction(s). Failure to comply with any applicable restrictions may constitute a violation of the securities laws of the relevant jurisdiction. Any Shareholder or Beneficial Owner who is in doubt as to his/her/its position should consult an appropriate professional adviser without delay. In particular, subject to certain exceptions as determined by the Company, this Prospectus should not be distributed, forwarded to or transmitted in, into or from any of the Specified Territories either with or without the PAL or the EAF.



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## LETTER FROM THE BOARD

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The Rights Issue Documents will not be registered or filed under the applicable securities or equivalent legislation of any jurisdiction other than Hong Kong.

### **Rights of Non-Qualifying Shareholders**

Overseas Shareholders on the Record Date may not be eligible to take part in the Rights Issue as explained below.

The Rights Issue Documents will not be registered or filed under the applicable securities or equivalent legislation of any jurisdictions other than Hong Kong. The Board has made enquiries regarding the feasibility of extending the Rights Issue to Overseas Shareholders. The Board notes the requirements specified in Rule 13.36(2)(a) of the Listing Rules and will only exclude Overseas Shareholders from the Rights Issue whom the Board, after making relevant enquiries, considers it necessary or expedient to exclude on account of either the legal restrictions under the laws of the relevant jurisdictions or any requirements of the relevant regulatory bodies or stock exchanges in such jurisdictions.

Based on the legal advice of the Company's legal advisers in relation to the laws of the Specified Territories and having considered the circumstances, the Directors have formed the view that, other than subject to certain limited exceptions as described below, it is necessary or expedient not to offer the Rights Shares in nil-paid or fully-paid forms in the Specified Territories due to the time and costs involved in the registration or filing of this Prospectus and/or approval required by the relevant authorities in the Specified Territories and/or additional steps the Company and/or Shareholders and/or Beneficial Owners need to take to comply with the local legal requirements and/or other requirements to be satisfied in order to comply with relevant local legal or regulatory requirements in the Specified Territories.

Accordingly, for the purposes of the Rights Issue, the Non-Qualifying Shareholders are:

- (i) Shareholders whose name(s) appeared in the register of members of the Company at the close of business on the Record Date and whose address(es) as shown on such register is/are in any of the Specified Territories, except for those Shareholders who fulfil, to the satisfaction of the Company, the relevant requirements specified in the section headed "Rights Issue – Limited categories of persons in the Specified Territories who may be able to take up their nil-paid Rights and subscribe for the Rights Shares under the Rights Issue" below; and
- (ii) any Shareholder(s) or Beneficial Owner(s) at that time who is/are otherwise known by the Company to be residents in any of the Specified Territories, except for those Shareholders or Beneficial Owners who fulfil, to the satisfaction of the Company, the relevant requirements specified in the section headed "Rights Issue – Limited categories of persons in the Specified Territories who may be able to take up their nil-paid Rights and subscribe for the Rights Shares under the Rights Issue" below.

Notwithstanding any other provision in the Rights Issue Documents, the Company reserves the right to permit any Shareholder or Beneficial Owner (including a Shareholder or Beneficial Owner in any of the Specified Territories) to participate in the Rights Issue and take

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## LETTER FROM THE BOARD

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up his/her/its entitlement to Rights Shares if the Company, in its absolute discretion, is satisfied that the offer under the Rights Issue is exempt from or not subject to or can otherwise be lawfully made to them without contravention of any relevant legal or regulatory requirements.

The Company also reserves the right to refuse to accept any application for Rights Shares where it believes that doing so would violate the applicable securities or other laws or regulations of any jurisdiction.

Receipt of any of the Rights Issue Documents or the crediting of Rights Shares in nil-paid form to a stock account in CCASS does not and will not constitute an offer in those jurisdictions where the Directors, based on enquiries made by them, consider it necessary or expedient not to extend the Rights Issue or in any territory in which it would be unlawful to extend the Rights Issue, and, in those circumstances, the Rights Issue Documents must be treated as sent for information only and should not be copied or redistributed. Any person (including, without limitation, any agent, custodian, nominee and trustee) who receives a copy of any of the Rights Issue Documents or whose stock account in CCASS is credited with Rights Shares in nil-paid form should not, in connection with the Rights Issue, distribute or send the same in, into or from, or transfer Rights Shares in nil-paid form to any person in, any of the Specified Territories or any territory in which it would be unlawful to extend the Rights Issue. If any of the Rights Issue Documents is received by, or any Rights Shares in nil-paid form are credited to the stock account in CCASS of, any person in any such territory or his/her agent or nominee, he/she should not take up such Rights Shares in nil-paid form or transfer the PAL (or apply for any excess Rights Shares under the EAF) or transfer such Rights Shares in nil-paid form in CCASS (if applicable) unless such person is able to demonstrate to the satisfaction of the Company, or the Company determines at its absolute discretion, that such actions would not violate applicable legal or regulatory requirements. Any person (including, without limitation, any custodian, nominee and trustee) who distributes or forwards this Prospectus or a PAL and/or an EAF in, into or from any of the Specified Territories (whether under a contractual or legal obligation or otherwise) should draw the recipient's attention to the contents of this section.

Arrangements have been made in respect of those Shareholders whose name(s) appeared on the register of members of the Company at the close of business on the Record Date and whose address(es) as shown on such register is/are in any of the Specified Territories, such that the Rights Shares which would otherwise have been provisionally allotted to them have instead been provisionally allotted (in nil-paid form) to J.P. Morgan or its nominee/agent, and will be sold in the market in their nil-paid form as soon as practicable after dealings in the nil-paid Rights Shares commence, if a premium (net of expenses) can be obtained. Proceeds of such sale, less expenses and stamp duty, above HK\$100 will be paid to those Non-Qualifying Shareholders who were registered Shareholders as at the close of business on the Record Date in Hong Kong dollars (pro-rata to their respective shareholdings on the Record Date). The Company will retain individual amounts of HK\$100 or less for the benefit of the Company. Any unsold nil-paid Rights Shares to which those Non-Qualifying Shareholders who are registered Shareholders as at the close of business on the Record Date would otherwise have been entitled will be available for excess application by Qualifying Shareholders under the EAFs.

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## LETTER FROM THE BOARD

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**Non-Qualifying Shareholders who are referred to in paragraph (ii) above (but not being persons referred to in paragraph (i) above) are not entitled to participate in the arrangements set out in this paragraph.**

**Limited categories of persons in the Specified Territories who may be able to take up their nil-paid Rights Shares and subscribe for the Rights Shares under the Rights Issue.**

Notwithstanding what is said in the section headed “Rights Issue – Rights of Non-Qualifying Shareholders” above, limited categories of persons in the Specified Territories may be able to take up their rights under the Rights Issue. The Company reserves the absolute discretion in determining whether to allow any participations in the Rights Issue as well as the identity of the persons who may be allowed to participate in any of the Specified Territories. Shareholders and Beneficial Owners in any of the Specified Territories may still participate in the Rights Issue, subject to the Company’s absolute discretion, provided that such Shareholders and Beneficial Owners are able to provide the Company with evidence, to the Company’s satisfaction, that they fulfil the relevant requirements in the relevant jurisdiction(s). For Beneficial Owners in any of the Specified Territories who want to participate in the Rights Issue, please contact your Intermediary to make the necessary arrangements.

### **Fractional Entitlement to the Rights Shares**

The Company will not provisionally allot and will not accept application for any fractions of the Rights Shares. No odd-lot matching services will be provided. All fractions of Rights Shares will be aggregated (and rounded down to the nearest whole number). All nil-paid Rights Shares arising from such aggregation will be provisionally allotted (in nil-paid form) to J.P. Morgan or its nominee/agent, and will be sold in the market for the benefit of the Company if a premium (net of expenses) can be obtained. Any unsold fractions of Rights Shares will be available for excess application by Qualifying Shareholders under the EAFs.

### **Procedures for Acceptance or Transfer**

#### ***General***

Any person (including, without limitation, any custodian, nominee and trustee outside Hong Kong) wishing to take up the Rights Shares in nil-paid form or fully-paid form under the Rights Issue must satisfy himself/herself/itself as to full observance of the applicable laws of any relevant territory including obtaining any requisite governmental or other consents, observing any other requisite formalities and paying any issue, transfer or other taxes due in such territories. The attention of Shareholders whose registered addresses are in any of the Specified Territories or who are holding Shares on behalf of persons with such addresses is drawn to the section headed “Rights Issue – Non-Qualifying Shareholders” above.

#### ***Action to be taken by registered Shareholders***

##### ***Subscription for all Rights Shares provisionally allotted***

For each Qualifying Shareholder, a PAL is enclosed with this Prospectus which entitles such Qualifying Shareholder to subscribe for the number of the Rights Shares shown thereon. If Qualifying Shareholder(s) wish(es) to exercise his/her/its/their right to subscribe for all the

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## LETTER FROM THE BOARD

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Rights Shares provisionally allotted to him/her/it/them as specified in the PAL, he/she/it/they must lodge the PAL in accordance with the instructions printed thereon, together with a remittance for the full amount payable on acceptance, with the Registrar by not later than 4:00 p.m. on the Final Acceptance Date. All remittances must be made in Hong Kong dollars and cheques must be drawn on an account with, and cashier's orders must be issued by, a licensed bank in Hong Kong and made payable to "Mongolian Mining Corporation – Rights Issue Account" and crossed "**Account Payee Only**".

It should be noted that unless the PAL, together with the appropriate remittance, has been lodged with the Registrar by 4:00 p.m. on the Final Acceptance Date, whether by the original allottee or any person in whose favour the rights have been validly transferred, that provisional allotment and all rights thereunder will be deemed to have been declined and will be cancelled and such Rights Shares will be available for application under the EAFs by Qualifying Shareholders. The Company may, at its discretion, treat a PAL as valid and binding on the person(s) by whom or on whose behalf it is lodged even if not completed in accordance with the relevant instructions.

All cheques and cashier's orders will be presented for payment immediately following receipt and all interest earned on such monies will be retained for the benefit of the Company. Completion and return of the PAL will constitute a warranty and representation to the Company that all registration, legal and regulatory requirements of all relevant jurisdictions in connection with the PAL and any acceptance of it have been, or will be, duly complied with. For the avoidance of doubt, neither HKSCC nor HKSCC Nominees Limited is subject to such warranty and representation. Any PAL in respect of which the accompanying cheque or cashier's order is dishonoured on first presentation is liable to be rejected, and in that event the provisional allotment and all rights thereunder will be deemed to have been declined and will be cancelled. If the Joint Underwriters exercise their right to terminate the Underwriting Agreement before the Latest Termination Date (expected to be 4:00 p.m. on Monday, 22 December 2014) and/or if any of the conditions mentioned in the section headed "Underwriting Arrangements – Conditions of the Rights Issue" below is not fulfilled and/or waived (as the case may be), the monies received in respect of the relevant provisional allotments will be returned to the relevant persons without interest by means of cheques despatched by ordinary post at the risk of such persons as soon as practicable thereafter.

### *Transfers and "splitting" of nil-paid Rights Shares*

Nil-paid Rights Shares can be traded on the Stock Exchange. A Qualifying Shareholder can accept all of his/her/its provisional allotment of Rights Shares, or sell all of his/her/its provisional allotment on the Stock Exchange or accept only part of his/her/its provisional allotment and sell the remaining part on the Stock Exchange.

If a Qualifying Shareholder wishes to accept only part of his/her/its provisional allotment or transfer a part of his/her/its nil-paid Rights Shares or to transfer his/her/its nil-paid Rights Shares to more than one person, the original PAL must be surrendered and lodged for cancellation together with a covering letter stating clearly the number of split PALs required

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## LETTER FROM THE BOARD

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and the number of nil-paid Rights Shares to be comprised in each split PAL (which, in aggregate, should be equal to the number of Rights Shares provisionally allotted to such holder as stated in Box B of the original PAL), by no later than 4:30 p.m. on Tuesday, 9 December 2014 to the Registrar, who will then cancel the original PAL and issue new PALs in the denominations required, which will be available for collection at the Registrar after 9:00 a.m. on the second business day after the surrender of the original PAL. This process is commonly known as “splitting” nil-paid Rights Shares.

Having “split” nil-paid Rights Shares, a Qualifying Shareholder who wishes to accept the provisional allotment of Rights Shares represented by a new PAL should do so in accordance with the instructions given above in relation to the subscription for all the Rights Shares provisionally allotted.

If a Qualifying Shareholder wishes to transfer all of his/her/its nil-paid Rights Shares under a PAL (or a split PAL, as the case may be) to another person, he/she/it should complete and sign the “Form of Transfer” (Form B) in the PAL and hand the PAL to the person to or through whom he/she/it is transferring his/her/its nil-paid Rights Shares. The transferee must then complete and sign the registration details in the PAL and lodge the PAL intact together with a remittance for the full amount payable on acceptance with the Registrar to effect the transfer by no later than 4:00 p.m. on the Final Acceptance Date.

The Company reserves the right to refuse to register any transfer in favour of any person in respect of which the Company believes such transfer may violate applicable legal or regulatory requirements.

*Important notice and representations and warranties relating to registered Shareholders in any of the Specified Territories*

Any registered Shareholder accepting and/or transferring a PAL or requesting registration of the Rights Shares comprised therein represents and warrants to the Company that, except where proof has been provided to the satisfaction of the Company that such person’s use of the PAL will not result in the contravention of any applicable legal or regulatory requirements in any jurisdiction: (i) such person is not accepting and/or transferring the PAL, or requesting registration of the relevant nil-paid Rights Shares or the Rights Shares from within any of the Specified Territories; (ii) such person is not in any of the Specified Territories or in any territory in which it may otherwise violate any applicable legal or regulatory requirements to make or accept an offer to acquire the Rights Shares or to use the PAL in any manner in which such person has used or will use it; (iii) such person is not acting on a nondiscretionary basis for a person resident in any of the Specified Territories at the time the instruction to accept or transfer was given; and (iv) such person is not acquiring the Rights Shares with a view to the offer, sale, resale, transfer, delivery or distribution, directly or indirectly, of any of the Rights Shares into any of the Specified Territories. For the avoidance of doubt, neither HKSCC nor HKSCC Nominees Limited is subject to any of the above representations and warranties.

The Company may treat as invalid any acceptance or purported acceptance of the allotment of Rights Shares comprised in, or transfer or purported transfer of, a PAL if it: (a) appears to the Company to have been executed in, or despatched from, any of the Specified

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## LETTER FROM THE BOARD

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Territories and the acceptance may involve a breach of the laws of the relevant places or Specified Territories, or the acceptance is otherwise in a manner which may involve a breach of the laws or other regulatory requirements of any jurisdiction, or if it or its agents believe the same may violate any applicable legal or regulatory requirements; (b) provides an address in any of the Specified Territories for delivery of definitive share certificates for Rights Shares or provides an address for delivery of definitive share certificates in any other jurisdiction outside Hong Kong in which it would violate any applicable legal or regulatory requirements to deliver such certificates; or (c) purports to exclude the representation and/or warranty required by the paragraph immediately above.

***Action to be taken by Beneficial Owners whose Shares are held by a Registered Owner (other than Shares deposited in CCASS)***

*Subscription for Rights Shares provisionally allotted and transfers and “splitting” of nil-paid Rights Shares*

If you are a Beneficial Owner whose Shares are registered in the name of a Registered Owner and you wish to subscribe for the Rights Shares provisionally allotted to you, or sell your nil-paid Rights Shares or “split” your nil-paid Rights Shares and accept part of your provisional allotment and sell the remaining part, you should contact the Registered Owner and provide the Registered Owner with instructions or make arrangements with the Registered Owner in relation to the acceptance, transfer and/or “splitting” of the rights to subscribe for Rights Shares which have been provisionally allotted in respect of the Shares in which you are beneficially interested.

Such instructions and/or arrangements should be given or made in advance of the relevant dates stated in the “Expected Timetable” in this Prospectus and otherwise in accordance with the requirements of the Registered Owner in order to allow the Registered Owner sufficient time to ensure that your instructions are given effect.

*Important notice and representations and warranties relating to Beneficial Owners in any of the Specified Territories whose Shares are held by a Registered Owner (other than CCASS)*

Any Beneficial Owner accepting and/or transferring a PAL or requesting registration of the Rights Shares comprised therein represents and warrants to the Company that, except where proof has been provided to the satisfaction of the Company that such person’s use of the PAL will not result in the contravention of any applicable legal or regulatory requirements in any jurisdiction: (i) such person is not accepting and/or renouncing the PAL, or requesting registration of the relevant nil-paid Rights Shares or the Rights Shares from within any of the Specified Territories; (ii) such person is not in any of the Specified Territories or in any territory in which it may otherwise violate any applicable legal or regulatory requirements to make or accept an offer to acquire the Rights Shares or to use the PAL in any manner in which such person has used or will use it; (iii) such person is not acting on a nondiscretionary basis for a person resident in any of the Specified Territories at the time the instruction to accept or transfer was given; and (iv) such person is not acquiring the Rights Shares with a view to the offer, sale, resale, transfer, delivery or distribution, directly or indirectly, of any of the Rights Shares into any of the Specified Territories.

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## LETTER FROM THE BOARD

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The Company may treat as invalid any acceptance or purported acceptance of the allotment of Rights Shares comprised in, or transfer or purported transfer of, a PAL if it: (a) appears to the Company to have been executed in, or despatched from, any of the Specified Territories and the acceptance may involve a breach of the laws or other regulatory requirements of the relevant places, or the acceptance is otherwise in a manner which may involve a breach of the laws or other regulatory requirements of any jurisdiction, or if it or its agents believe the same may violate any applicable legal or regulatory requirements; (b) provides an address in any of the Specified Territories for delivery of definitive share certificates for Rights Shares or provides an address for delivery of definitive share certificates in any other jurisdiction outside Hong Kong in which it would violate any applicable legal or regulatory requirements to deliver such certificates; or (c) purports to exclude the representation and/or warranty required by the paragraph immediately above.

### *Action to be taken by Beneficial Owners holding interests in Shares through CCASS*

#### *Subscription for Rights Shares provisionally allotted and transfers and “splitting” of nil-paid Rights Shares*

If you are a Beneficial Owner whose Shares are deposited in CCASS and registered in the name of HKSCC Nominees Limited, and you wish to subscribe for the Rights Shares provisionally allotted to you, or sell your nil-paid Rights Shares or “split” your nil-paid Rights Shares and accept part of your provisional allotment and sell the remaining part, you should (unless you are an Investor Participant) contact your intermediary and provide your intermediary with instructions or make arrangements with your intermediary in relation to the acceptance, transfer and/or “splitting” of the rights to subscribe for Rights Shares which have been provisionally allotted in respect of the Shares in which you are beneficially interested.

Such instructions and/or arrangements should be given or made in advance of the relevant dates stated in the “Expected Timetable” in this Prospectus and otherwise in accordance with the requirements of your Intermediary in order to allow your Intermediary sufficient time to ensure that your instructions are given effect. The procedure for acceptance, transfer and/or “splitting” by CCASS Participants of the Rights Shares provisionally allotted to CCASS stock accounts in respect of the Shares registered in the name of HKSCC Nominees Limited shall be in accordance with the “General Rules of CCASS”, the “CCASS Operational Procedures” and any other requirements of CCASS.

The procedures for acceptance, transfer and/or “splitting” of Rights Shares provisionally allotted to Beneficial Owners who have been admitted to participate in CCASS as Investor Participants shall be in accordance with “Operating Guide for Investor Participants” and any other requirements of CCASS. Beneficial Owners who have been admitted to participate in CCASS as Investor Participants should contact CCASS and provide CCASS with instructions or make arrangements with CCASS in relation to the manner in which such Beneficial Owners’ interests in Rights Shares should be dealt with.

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## LETTER FROM THE BOARD

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*Important notice and representations and warranties relating to Beneficial Owners in any of the Specified Territories holding interests in Shares through CCASS*

Any Beneficial Owner holding interests in Shares through CCASS and any CCASS Participant who instructs its intermediary to make an acceptance and/or transfer in accordance with the procedures set out above represents and warrants to the Company that, except where proof has been provided to the satisfaction of the Company that such person's acceptance will not result in the contravention of any applicable legal or regulatory requirements in any jurisdiction: (i) such person is not accepting and/or renouncing the PAL, or requesting registration of nil-paid Rights Shares or the Rights Shares from within any of the Specified Territories, (ii) such person is not in any of the Specified Territories or in any territory in which it may otherwise violate any applicable legal or regulatory requirements to make or accept an offer to acquire Rights Shares; (iii) such person is not acting on a nondiscretionary basis for a person located within any of the Specified Territories at the time the instruction to accept was given; and (iv) such person is not acquiring Rights Shares with a view to the offer, sale, resale, transfer, delivery or distribution, directly or indirectly, of any such Rights Shares into any of the Specified Territories. For the avoidance of doubt, HKSCC Nominees Limited, who subscribes for the Rights Shares on behalf of CCASS Participants, is not subject to the above representations and warranties.

The Company may treat as invalid any instruction which appears to the Company to have been despatched from any of the Specified Territories and which may involve a breach of the laws or other regulatory requirements of the relevant places or any instruction which otherwise appears to the Company may involve a breach of the laws or other regulatory requirements of any jurisdiction; or if the Company or its agents believes the same may violate any applicable legal or regulatory requirements; or which purports to exclude the representation and/or warranty required by the paragraph immediately above.

### **Application for excess Rights Shares**

Qualifying Shareholders may apply, by way of excess application, for:

- (i) any unsold Rights Shares which would have been allotted to Non-Qualifying Shareholders had they been Qualifying Shareholders;
- (ii) any unsold Rights Shares created by adding together fractions of the Rights Shares; and
- (iii) any Rights Shares provisionally allotted but not validly accepted by Qualifying Shareholders or otherwise subscribed for by renounees or transferees of nil-paid Rights Shares.

Application for excess Rights Shares can be made only by Qualifying Shareholders. If a Qualifying Shareholder wishes to apply for excess Rights Shares in addition to his/her/its provisional allotment, he/she/it must complete and sign an EAF (in accordance with the instructions printed thereon) and lodge the same with a separate remittance for the excess



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## LETTER FROM THE BOARD

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Rights Shares being applied for with the Registrar by the Latest Time for Acceptance. All remittances must be made in Hong Kong dollars. Cheques must be drawn on an account with, and cashier's orders must be issued by, a licensed bank in Hong Kong and made payable to "Mongolian Mining Corporation – Excess Application Account" and crossed "**Account Payee Only**". The Company may at its discretion treat an EAF as valid or binding on the person(s) by himself/herself/itself/themselves or on whose behalf it is lodged even if not completed in accordance with the relevant instructions.

The Directors will allocate any excess Rights Shares at their discretion on a fair and equitable basis and as far as practicable on a pro-rata basis by reference to the number of excess Rights Shares applied for under each application. Reference will only be made to the number of excess Rights Shares being applied for, and no reference will be made to Rights Shares comprised in applications under any PAL or the existing number of Shares held by Qualifying Shareholders. If the aggregate number of Rights Shares not taken up by the Qualifying Shareholders under PALs is greater than the aggregate number of excess Rights Shares applied for under EAFs, the Directors will allocate to each Qualifying Shareholder who applies for excess Rights Shares the full number of such excess Rights Shares applied for. No preference will be given to topping up odd lots to whole board lots.

The Directors consider the above basis for allocation to be fair and reasonable.

### *Important notice and representations and warranties relating to registered Shareholders in any of the Specified Territories*

What is set out under the heading "Action to be taken by registered Shareholders – Important notice and representations and warranties relating to registered Shareholders in any of the Specified Territories" above in relation to transfer and acceptance of nil-paid Rights Shares and Rights Shares also applies to applications for excess Rights Shares, with appropriate changes to reflect that the context is an application for excess Rights Shares.

### *Action to be taken by Beneficial Owners whose Shares are held by a Registered Owner (other than Shares deposited in CCASS) who wish to apply for excess Rights Shares*

#### *Excess Rights Shares application procedures*

If you are a Beneficial Owner whose Shares are registered in the name of a Registered Owner and you wish to apply for excess Rights Shares, you should contact the Registered Owner and provide the Registered Owner with instructions or make arrangements with the Registered Owner in relation to such application. Such instructions and/or arrangements should be given or made in advance of the latest time for application and payment for excess Rights Shares stated in the section headed "Expected Timetable" in this Prospectus and otherwise in accordance with the requirements of the Registered Owner, in order to allow the Registered Owner sufficient time to ensure that your instructions are given effect.

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## LETTER FROM THE BOARD

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*Important notice and representations, warranties relating to Beneficial Owners in any of the Specified Territories whose Shares are held by a Registered Owner (other than CCASS)*

What is set out under the heading “Action to be taken by Beneficial Owners whose Shares are held by a Registered Owner (other than Shares deposited in CCASS) – Important notice and representations and warranties relating to Beneficial Owners in any of the Specified Territories whose Shares are held by a Registered Owner (other than CCASS)” above in relation to transfer and acceptance of nil-paid Rights Shares and Rights Shares also applies to applications for excess Rights Shares, with appropriate changes to reflect that the context is an application for excess Rights Shares.

*Action to be taken by Beneficial Owners holding interest in Shares through CCASS who wish to apply for excess Rights Shares*

*Excess Rights Shares application procedures*

If you are a Beneficial Owner whose Shares are deposited in CCASS and registered in the name of HKSCC Nominees Limited, and you wish to apply for excess Rights Shares, you should (unless you are an Investor Participant) contact your intermediary and provide your intermediary with instructions or make arrangements with your intermediary in relation to the application for excess Rights Shares. Such instructions and/or arrangements should be given or made in advance of the date stated in the “Expected Timetable” in this Prospectus as the latest time for application and payment for excess Rights Shares and otherwise in accordance with the requirements of your intermediary in order to allow your intermediary sufficient time to ensure that your instructions are given effect. The procedure for application for excess Rights Shares shall be in accordance with the “General Rules of CCASS”, the “CCASS Operational Procedures” and any other requirements of CCASS.

The procedures for application for excess Rights Shares by Beneficial Owners who have been admitted to participate in CCASS as Investor Participants shall be in accordance with the “Operating Guide for Investor Participants” and any other requirements of CCASS. Beneficial Owners who have been admitted to participate in CCASS as Investor Participants should contact CCASS to provide CCASS with instructions or make arrangements with CCASS in relation to any applications for excess Rights Shares.

*Important notice and representations and warranties relating to Beneficial Owners in any of the Specified Territories holding interests in Shares through CCASS*

What is set out under the heading “Action to be taken by Beneficial Owners holding interests in Shares through CCASS – Important notice and representations and warranties relating to Beneficial Owners in any of the Specified Territories holding interests in Shares through CCASS” above in relation to transfer and acceptance of nil-paid Rights Shares and Rights Shares also applies to applications for excess Rights Shares, with appropriate changes to reflect that the context is an application for excess Rights Shares.

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## LETTER FROM THE BOARD

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### *Important notice for Beneficial Owners*

Beneficial Owners with their Shares held by a Registered Owner, or which are held in CCASS, should note that the Board will regard the Registered Owner (including HKSCC Nominees Limited) as a single Shareholder according to the register of members of the Company. Accordingly, the Beneficial Owners should note that the aforesaid arrangement for the allocation of the excess Rights Shares will not be extended to the Beneficial Owners individually (including those Beneficial Owners holding the Shares through HKSCC Nominees Limited). HKSCC Nominees Limited will allocate the excess Rights Shares it receives to the relevant CCASS Participants pro-rata to the number of excess Rights Shares each has applied for, or in such other manner as HKSCC considers fair and appropriate, which is pursuant to the allocation basis as stipulated in Rules 8.10.4(ix) of the CCASS Operational Procedures.

If no excess Rights Shares are allotted to the Qualifying Shareholder who has applied for excess Rights Shares, it is expected that a cheque for the amount tendered on application in full without interest will be despatched to his/her/its registered address by ordinary post at his/her/its own risk on or before Monday, 29 December 2014. If the number of excess Rights Shares allotted to the Qualifying Shareholder is less than that applied for, it is expected that a cheque for the amount of the surplus application monies, without interest, will be despatched to his/her/its registered address by ordinary post at his/her/its own risk on or before Monday, 29 December 2014.

All cheques and cashier's orders will be presented for payment immediately following receipt and all interest earned on such monies (if any) will be retained for the benefit of the Company. Completion and return of an EAF will constitute a warranty and representation to the Company that all registration, legal and regulatory requirements of all relevant jurisdictions in connection with EAF and any acceptance of it, have been, or will be, duly complied with. For the avoidance of doubt, neither HKSCC nor HKSCC Nominees Limited is subject to such warranty and representation. Completion and return of an EAF together with a cheque or cashier's order in payment for the excess Rights Shares applied for will constitute a warranty by the applicant that the cheque or the cashier's order will be honoured on first presentation. If any cheque or cashier's order accompanying a completed EAF is dishonoured on first presentation, without prejudice to the other rights of the Company, such EAF is liable to be rejected.

An EAF is for use only by the person(s) to whom it is addressed and is not transferable. All documents, including cheques or cashier's orders for the amount due, will be despatched by ordinary post at the risk of the persons entitled thereto to their respective registered addresses as shown in the register of members of the Company on the Record Date.

If the Underwriting Agreement is terminated and/or if any of the conditions in the section headed "Underwriting Arrangements – Conditions of the Rights Issue" below is not fulfilled and/or waived (as the case may be), the monies received in respect of applications for excess Rights Shares will be returned to the applicants, or in case of joint applicants, to the first-named person, without interest by means of cheques despatched by ordinary post to their respective addresses at their own risk as soon as practicable thereafter.

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## LETTER FROM THE BOARD

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### **Status of the Rights Shares**

The Rights Shares, when fully-paid, allotted and issued, will rank pari passu in all respects with the existing Shares then in issue. Holders of fully-paid Rights Shares will be entitled to receive all future dividends and distributions which are declared, made or paid after the date of allotment and issue of the fully-paid Rights Shares.

### **Application for listing of and dealings in the Rights Shares**

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms. Nil-paid and fully-paid Rights Shares are expected to have the same board lot size as the Shares, i.e. 500 Shares in one board lot. No part of the securities of the Company in issue or for which listing or permission to deal is being or is proposed to be sought is listed on, or dealt in, any other stock exchange.

### **Stamp duty and other applicable fees and charges**

Dealings in the Rights Shares in both their nil-paid and fully-paid forms will be subject to the payment of stamp duty, Stock Exchange trading fee, Securities and Futures Commission transaction levy and other applicable fees and charges in Hong Kong.

### **Rights Shares will be eligible for admission into CCASS**

Subject to the approval for the listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms on the Stock Exchange as well as compliance with the stock admission requirements of HKSCC, the Rights Shares in both their nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the respective commencement dates of dealings in the Rights Shares in both their nil-paid and fully-paid forms on the Stock Exchange or such other dates as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second settlement day after the date of the transaction. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Shareholders should seek advice from their stockbroker or other professional adviser for details of those settlement arrangements and how such arrangements will affect their rights and interests.

### **Share Certificates for Rights Shares and Refund Cheques for Rights Issue**

Subject to the fulfilment of the conditions of the Rights Issue, share certificates for all fully-paid Rights Shares are expected to be posted to those who have accepted and (where applicable) applied for, and paid for, the Rights Shares by ordinary post at their own risk on or before 29 December 2014 (Monday). Refund cheques in respect of wholly or partially unsuccessful applications for excess Rights Shares (if any) are expected to be posted to the applicants by ordinary post at their own risk on or before 29 December 2014 (Monday).

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## LETTER FROM THE BOARD

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### Closure of the Register of Members

The register of members of the Company was closed from 28 November 2014 (Friday) to 2 December 2014 (Tuesday) for determining the entitlements to the Rights Shares. No transfer of Shares was registered during this period.

### UNDERWRITING ARRANGEMENTS

#### Underwriting Agreement

Date:	31 October 2014
Joint Underwriters:	BNP Paribas and J.P. Morgan
Number of underwritten Shares:	The Rights Issue will be fully underwritten by the Joint Underwriters other than the Rights Shares that each of the Irrevocable Undertaking Covenantors have undertaken to take up by way of its rights entitlement under the Rights Issue pursuant to the Irrevocable Undertakings.
Joint Underwriters' commission:	3% of the aggregate Subscription Price payable in respect of the Underwritten Shares determined on the Record Date. The underwriting commission was determined after arm's length negotiations between the Company and the Joint Underwriters with reference to, among other things, the scale of the Rights Issue and the prevailing market rate.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, each of the Joint Underwriters and their respective ultimate holding companies are Independent Third Parties.

The Directors consider that the terms of the Underwriting Agreement including the rate of commission are on normal commercial terms and fair and reasonable so far as the Company and the Shareholders are concerned.

#### Conditions of the Rights Issue

The Rights Issue is conditional on (i) the satisfaction (or, as applicable, waiver) of the conditions of the Underwriting Agreement referred to in this section, and (ii) the Underwriting Agreement not being terminated in accordance with its terms. The obligations of the Joint Underwriters under the Underwriting Agreement are conditional upon, among others:

- (i) approval of the Rights Issue by the Shareholders at the EGM having been obtained;

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## LETTER FROM THE BOARD

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- (ii) the issue of the Announcement within one Business Day (or such longer period as the Company and the Joint Underwriters may agree) from the date of the Underwriting Agreement;
- (iii) the registration by and filing with the Registrar of Companies in Hong Kong of the Rights Issue Documents on or before the Despatch Date;
- (iv) the lodging of a duly certified copy of the Prospectus with the Registrar of Companies in Hong Kong on or before the Despatch Date;
- (v) the posting of the Rights Issue Documents to the Qualifying Shareholders and (subject to the restrictions, if any, under the relevant overseas laws and regulations) the posting of the Prospectus stamped “For Information Only” to the Non-Qualifying Shareholders, in each case, on the Despatch Date;
- (vi) the Joint Underwriters receiving from the Company all conditions precedent documents under the Underwriting Agreement in accordance with the time specified therein;
- (vii) in respect of the relevant warranties and undertakings made by the Company in the Underwriting Agreement, by the Latest Termination Date, no breach of any of the warranties or the undertakings having come to the knowledge of any of the Joint Underwriters;
- (viii) the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Rights Shares in their nil-paid and fully-paid forms and such listings and permission to deal not having been withdrawn or revoked prior to the Latest Termination Date;
- (ix) all relevant approvals being obtained from all relevant governmental and regulatory authorities, including the Stock Exchange and the Securities and Futures Commission of Hong Kong, as the case may require in connection with the Rights Issue by the relevant time that each approval is required by the Company, and such approvals not being withdrawn or revoked prior to the Latest Termination Date;
- (x) delivery of an original and duly executed Irrevocable Undertakings within seven business days from the date of the Underwriting Agreement (or such longer period as the Company and the Joint Underwriters may agree) by each of the Irrevocable Undertaking Covenantors;
- (xi) fulfilment by each of the Irrevocable Undertaking Covenantors with all of its obligations under the Irrevocable Undertakings and each of the Irrevocable Undertakings not having been terminated;
- (xii) the obligations of the Joint Underwriters under the Underwriting agreement not being terminated by the Joint Underwriters in accordance with the terms of the Underwriting Agreement;

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## LETTER FROM THE BOARD

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- (xiii) each condition to enable the Rights Shares (in both nil-paid and fully-paid forms) to be admitted as eligible securities for deposit, clearance and settlement in CCASS having been satisfied not later than the business day prior to the first day of dealings in nil-paid Rights Shares as set out in the Prospectus and no notification having been received by the Company from HKSCC by such date that such admission or facility for holding and settlement has been or is to be refused; and
- (xiv) the Shares remaining listed on the Stock Exchange at all times up to and including the Latest Termination Date and the current listing of the Shares not having been withdrawn or the trading of the Shares not having been suspended for a period of more than two (or such longer period as the Company and the Joint Underwriters may agree) consecutive business days (other than any suspension pending clearance of the Announcement) and no indication being received before the Latest Termination Date from the Stock Exchange to the effect that such listing may be withdrawn or objected to (or conditions will or may be attached thereto) including but not limited to as a result of the Rights Issue or in connection with the terms of the Underwriting Agreement or for any other reason.

If any of the above conditions of the Underwriting Agreement is not fulfilled, or waived if permitted by the terms of the Underwriting Agreement in whole or in part by the Joint Underwriters, by the specified time and date or the Latest Termination Date, the Underwriting Agreement shall terminate (save in respect of certain rights and obligations under the Underwriting Agreement) and the Rights Issue will not proceed.

The Company shall use its best endeavours to procure the fulfilment of conditions set out above. The Company shall do all the things required to be done by it pursuant to the Rights Issue Documents or otherwise reasonably necessary to give effect to the Rights Issue and the arrangements contemplated by the Underwriting Agreement.

### **Termination of the Underwriting Agreement**

The Underwriting Agreement contains provisions granting the Joint Underwriters, by notice in writing to the Company, the right to terminate the Underwriting Agreement on the occurrence of certain events.

The Joint Underwriters may at any time prior to the Latest Termination Date, by notice in writing to the Company, rescind or terminate the Underwriting Agreement if:

- (a) there shall develop, occur, exist or come into effect or become public knowledge any event, series of events or circumstances concerning or relating to:
  - (i) any new laws or any change, or any development involving a prospective change, in existing laws or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong, Mongolia or the PRC; or

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## LETTER FROM THE BOARD

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- (ii) any local, national or international event or change (whether or not foregoing part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement) of a political, military, financial, economic, industrial, regulatory or securities and other market conditions or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets; or
- (iii) any change, or any development involving a prospective change, in or affecting the assets, liabilities, business, general affairs, management, prospects, profits, losses, results of operations, position or condition, financial or trading, or performance of the Company and the other members of the Group, taken as a whole; or
- (iv) any event or circumstance in the nature of force majeure (including, without limitation, any act of government, economic sanctions, strike or lock-out, riot, fire, explosion, flooding, earthquake, civil commotion, act or declaration of war, outbreak or escalation of hostilities (whether or not war is or has been declared), act of terrorism (whether or not responsibility has been claimed), act of God, pandemic, epidemic, outbreak of infectious disease, declaration of a state of emergency or calamity or crisis, in each case affecting Hong Kong, Mongolia or the PRC; or
- (v) a general moratorium on commercial banking activities declared by relevant authorities in Hong Kong, the PRC, Mongolia, the United States, the United Kingdom or the European Union (or any member thereof) or a material disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in Hong Kong, the PRC, Mongolia, the United States, the United Kingdom or the European Union (or any member thereof); or
- (vi) any suspension or restriction on trading in shares or securities generally, or the establishment of minimum prices, on the Stock Exchange, the London Stock Exchange plc, the New York Stock Exchange, Inc. or NASDAQ, or any major disruption of any securities settlement or clearing services in Hong Kong; or
- (vii) any change, or any development involving a prospective change, or any event or circumstance likely to result in a change or a development involving a prospective change, in or affecting any Taxation, exchange controls or currency exchange rates in Hong Kong, the PRC, Mongolia, the United States, the United Kingdom or the European Union (or any member thereof); or
- (viii) an authority or a political body or organization in any relevant jurisdiction commencing any investigation or other action, or announcing an intention to investigate or take other action, against any director of the Company;



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## LETTER FROM THE BOARD

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which, in the sole opinion of the Joint Underwriters:

- (1) is or will or is reasonably expected to have a material adverse effect on the business or financial or trading position or prospects of the Group or the Rights Issue; or
  - (2) has or will have or is reasonably expected to have a material adverse effect on the success of the Rights Issue or the level of Rights Shares taken up; or
  - (3) makes it impracticable, inadvisable or inexpedient to proceed with the Rights Issue; or
- (b) there comes to the notice of any of the Joint Underwriters including but not limited to the following:
- (i) any matter or event showing any of the Warranties (as defined in the Underwriting Agreement) was, when given, untrue, incorrect or misleading or as having been breached; or
  - (ii) any material breach by the Company of any provision of the Underwriting Agreement, or any material breach by the Irrevocable Undertaking Covenantors of the Irrevocable Undertakings of any of their respective obligations or undertakings contained therein; or
  - (iii) any statement contained in the Prospectus has become or been discovered to be untrue, incorrect, incomplete or misleading in any material respect; or
  - (iv) any event, act or omission occurs which gives or is likely to give rise to any material liability of the Company pursuant to the indemnities referred to in the Underwriting Agreement; or
  - (v) failing to obtain the requisite Shareholders approval of the Rights Issue at the EGM; or
  - (vi) there is any change or development involving a prospective change in the condition, results of operations, prospects, management, business, shareholders' equity or in the financial or trading position of the Company or any member of the Group which, in the sole opinion of the Joint Underwriters, is or is reasonably expected to have a material adverse effect in the context of the Rights Issue; or
  - (vii) permission to deal in and listing of all the Rights Shares (in their nil-paid and fully-paid forms) has been withdrawn by the Stock Exchange; or
- (c) any matter or circumstance arises as a result of which any of the conditions set out in the Underwriting Agreement has become incapable of satisfaction as at the required time.

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## LETTER FROM THE BOARD

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**In the event the Joint Underwriters exercise their right to terminate the Underwriting Agreement prior to the Latest Termination Date, the obligations of all parties thereunder shall immediately cease and null and void and no party will (save in respect of certain rights or obligations under the Underwriting Agreement) have any right against or liability towards any of the other parties arising out of or in connection with the Underwriting Agreement.**

**If the Joint Underwriters exercise such right, the Underwriting Agreement will not become unconditional and the Rights Issue will not proceed. Further announcement will be made if the Underwriting Agreement is terminated by the Joint Underwriters.**

### **Lock-Up**

The Company has undertaken to the Joint Underwriters that, except with the prior written consent of each of the Joint Underwriters, the Company shall not (except for the offer, allotment and issue of the Rights Shares pursuant to the Rights Issue and the Shares converted from the Share Options), at any time during the period commencing on the date of the Underwriting Agreement and ending on, and including, the date that is 90 days after the first day of trading of the Rights Shares in fully-paid form on the Stock Exchange (the “Lock-up Period”): (i) allot, issue, sell, accept subscription for, offer to allot or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise dispose of, either directly or indirectly, conditionally or unconditionally, any Shares or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to subscribe for or purchase, any Shares); enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to subscribe for or purchase, any Shares); (iii) enter into any transaction with the same economic effect as any transaction specified in (i) or (ii) above; or (iv) offer to or agree to or announce any intention to effect any such transaction specified in (i), (ii) or (iii) above.

MCS Mining Group has also undertaken in its Irrevocable Undertaking to the Joint Underwriters that, except with the prior written consent of each of the Joint Underwriters, MCS Mining Group will not (save for the performance of its Irrevocable Undertaking) at any time during the Lock-up Period; (a) sell, offer to sell, contract, mortgage, charge, pledge, hypothecate or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of the Company or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares), or (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or any other securities of the Company or any

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## LETTER FROM THE BOARD

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interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any other securities of the Company), or (c) enter into any transaction with the same economic effect as any transaction specified in (a) or (b) above, or (d) offer to or agree to or announce any intention to effect any transaction specified in (a), (b) or (c) above, in each case, whether the transaction is to be settled by delivery of Shares or such other securities of the Company or in cash or otherwise (whether or not the allotment, issue, sale, granting of options or warrant, disposal of or creation of encumbrance over, either directly or indirectly, conditionally or unconditionally, of Shares or such other securities of the Company will be completed within the Lock-up Period) provided that MCS Mining Group has pledged Shares, and in the future may pledge or charge Shares in favour of the syndicate lenders of the Loan Facility to comply with the covenants of the Loan Facility, and this undertaking shall not be applicable to any subsequent disposal of the Shares by such pledgee or chargee. "Loan Facility" means the credit facility obtained by MCS Holding LLC, an affiliate of MCS Mining Group, from a syndicate of lenders including an affiliate of BNP Paribas in 2012 secured by a charge of a portion of the Shares held by MCS Mining Group.

### **Irrevocable Undertakings**

As at the Latest Practicable Date, MCS Mining Group, our Controlling Shareholder, Novel Holdings Group Limited, Trimunkh Limited, Sumberu Limited, Eco Mogul Limited, Inter Group Mongolia Limited, Gera Investments Limited, Benu Investment Limited, Crystalline Investment Limited, Tamirana Limited, Tugs Investment Limited, Shunkhlai Mining, Kerry Mining (UHG) Limited, Lotus Amsa Limited, Highline Holdings Limited, True Kind Limited, Anand & Co. Holding Limited and Botgo Limited held 1,241,150,586 Shares, 184,659,019 Shares, 106,304,907 Shares, 27,927,529 Shares, 13,782,736 Shares, 10,120,113 Shares, 11,811,657 Shares, 3,327,908 Shares, 5,051,079 Shares, 1,971,079 Shares, 11,819,579 Shares, 183,000,000 Shares, 300,000,000 Shares, 112,833,333 Shares, 47,000,000 Shares, 18,833,334 Shares, 47,000,000 Shares and 112,833,333 Shares, respectively, representing approximately 33.50%, 4.98%, 2.87%, 0.75%, 0.37%, 0.27%, 0.32%, 0.09%, 0.14%, 0.05%, 0.32%, 4.94%, 8.10%, 3.05%, 1.27%, 0.51%, 1.27% and 3.05% of the total number of the existing Shares in issue, respectively.

Pursuant to the respective Irrevocable Undertakings, each of the Irrevocable Undertaking Covenantors has irrevocably undertaken to the Company and the Joint Underwriters that each of them will, among other things:

- (i) take up its entitlement to the Rights Shares under the Rights Issue pursuant to the terms of the Rights Issue in respect of the Shares legally and beneficially owned (as the case may be) by it as at the date of the Irrevocable Undertaking or the Record Date (as the case may be);
- (ii) lodge the PALs with the Registrar with full payment therefor in accordance with the Rights Issue and not to revoke the submission of such PALs;

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## **LETTER FROM THE BOARD**

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- (iii) not dispose of or transfer (directly or indirectly, including without limitation by the creation of any option, charge or encumbrance or rights over or in respect of) any of its rights to subscribe for Rights Shares (in the form of Rights Shares in nil-paid form) up to and including the last date for acceptance and payment in respect of provisional allotments under the Rights Issue; and
- (iv) not dispose of or transfer (directly or indirectly, including without limitation by the creation of any option, charge or encumbrance or rights over or in respect of) its legal and beneficial interest (as the case may be) in any of the Shares owned by it as at the date of the Irrevocable Undertakings from the date of the Irrevocable Undertakings up to and including the Record Date.

The Rights Issue is fully underwritten by the Joint Underwriters on the terms of the Underwriting Agreement other than all the Rights Shares that will be provisionally allotted to and which are to be taken up by the Irrevocable Undertaking Covenantors pursuant to the Irrevocable Undertakings on the terms and conditions set out in the Irrevocable Undertakings.

### **REASONS FOR THE RIGHTS ISSUE AND USE OF PROCEEDS**

The Directors consider that, after taking into account the costs and benefits of different types of fund raising alternatives available to the Group, the Rights Issue is the preferred means for the Group to improve liquidity and finance its general working capital.

The Directors believe that the Rights Issue is in the interests of the Group and the Shareholders as a whole since it would allow the Qualifying Shareholders to maintain their respective pro-rata shareholdings in the Company and participate in the future growth and development of the Company.

The expenses in relation to the Rights Issue (including financial, legal advisory and other professional expenses) are estimated to be approximately HKD40 million and will be borne by the Company. The estimated net subscription price per Rights Share upon full acceptance of the relevant provisional allotment of Rights Shares is expected to be approximately HKD0.27.

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## LETTER FROM THE BOARD

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The estimated net proceeds of the Rights Issue will be approximately HKD1,516 million after the deduction of all estimated expenses of HKD40 million. The Directors currently intend to use the net proceeds of the Rights Issue for the following purposes which is in-line with the Group's overall business strategy:

- approximately 10% (or approximately HKD151.6 million of the total estimated net proceeds) for strengthening the capital base of and providing greater financial flexibility for the Group to support the continuing development and growth of the Group's business and funding its future expansion needs including, but not limited to:
  - expanding the Group's product load out facility for railways. While the Group currently has no approved plans or specific timing with respect to such expansion, the Group expects to coordinate such expansion with the development of a railway by an Independent Third Party;
  - continuing current modifications to the run-of-mine coal feed facility to increase feed volume and blending ability; and
  - modifications to the CHPP to optimise and increase product yield. While the Group currently has no approved plans or specific timing with respect to such modifications, the Group does not expect to incur significant capital expenses since these modifications will involve optimization of existing plant equipment performance;
- approximately 35% (or approximately HKD530.6 million of the total estimated net proceeds) for general working capital for development of the Group's existing and future business and investment opportunities as may be identified from time to time. As at the Latest Practicable Date, the Group has not identified any business and investment opportunities; and
- approximately 55% (or approximately HKD833.8 million of the total estimated net proceeds) for repayment of some of the existing indebtedness of the Group in order to further improve the Group's net gearing ratio, cash position and availability of working capital.

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## LETTER FROM THE BOARD

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### EFFECT OF THE RIGHTS ISSUE ON THE SHAREHOLDING OF THE COMPANY

Set out below is the shareholding structure of the Company as at the Latest Practicable Date and immediately after the completion of the Rights Issue under various scenarios,

- (i) assuming that no new Shares (other than the Rights Shares) are allotted and issued on or before completion of the Rights Issue:

	As at the Latest Practicable Date <sup>(2)</sup>		Immediately after completion of the Rights Issue (assuming all Rights Shares are taken up by Qualifying Shareholders) <sup>(2)</sup>		Immediately after completion of the Rights Issue (assuming no Rights Shares are taken up by Qualifying Shareholders (save for the Irrevocable Undertaking Covenantors and the Joint Underwriters)) <sup>(2)</sup>	
	Number of Shares	Approximate %	Number of Shares	Approximate %	Number of Shares	Approximate %
Irrevocable Undertaking Covenantors	2,439,426,192	65.84%	6,098,565,480	65.84%	6,098,565,480	65.84%
Other public shareholders	1,265,610,308	34.16%	3,164,025,770	34.16%	1,265,610,308	13.66%
J.P. Morgan and its sub-underwriters <sup>(3)</sup>	-	-	-	-	949,207,731	10.25%
BNP Paribas and its sub-underwriters <sup>(3)</sup>	-	-	-	-	949,207,731	10.25%
Total	3,705,036,500	100.00%	9,262,591,250	100.00%	9,262,591,250	100.00%

*Notes:*

- (1) Based on information in the Company's disclosure of interests register.
- (2) Certain percentages figures included in this table have been subject to rounding adjustments. Accordingly figures shown as totals may not be an arithmetic aggregation of the figures preceding them.
- (3) Pursuant to the Underwriting Agreement, each Joint Underwriter has agreed that it will hold less than 10% of the total number of Shares in issue immediately upon completion of the Rights Issue. The Joint Underwriters have separately entered into sub-underwriting agreements with certain sub-underwriters to ensure that each Joint Underwriter will hold less than 10% of the total number of Shares in issue upon the completion of the Rights Issue. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, each of the sub-underwriters is an Independent Third Party.
- (4) The Company shall ensure the minimum percentage of public float prescribed by the Stock Exchange is complied with.

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## LETTER FROM THE BOARD

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- (ii) assuming that new Shares (other than the Rights Shares) are allotted and issued on or before completion of the Rights Issue pursuant to the full exercise of all outstanding Share Options on or prior to the Last Day for Transfer but otherwise no other Shares (other than the Rights Shares) are issued and no repurchase of Shares on or before the completion of the Rights Issue:

	As at the Latest Practicable Date <sup>(2)</sup>		Immediately after completion of the Rights Issue (assuming all Rights Shares are taken up by Qualifying Shareholders) <sup>(2)</sup>		Immediately after completion of the Rights Issue (assuming no Rights Shares are taken up by Qualifying Shareholders (save for the Irrevocable Undertaking Covenantors and the Joint Underwriters)) <sup>(2)</sup>	
	Number of Shares	Approximate %	Number of Shares	Approximate %	Number of Shares	Approximate %
Irrevocable Undertaking						
Covenantors	2,439,426,192	65.38%	6,098,565,480	65.38%	6,098,565,480	65.38%
Directors	3,500,000	0.09%	8,750,000	0.09%	3,500,000	0.04%
Other public shareholders	1,288,460,308	34.53%	3,221,150,770	34.53%	1,288,460,308	13.80%
J.P. Morgan and its sub-underwriters <sup>(3)</sup>	-	-	-	-	968,970,231	10.39%
BNP Paribas and its sub-underwriters <sup>(3)</sup>	-	-	-	-	968,970,231	10.39%
Total	3,731,386,500	100.00%	9,328,466,250	100.00%	9,328,466,250	100.00%

*Notes:*

- (1) Based on information in the Company's disclosure of interests register.
- (2) Certain percentages figures included in this table have been subject to rounding adjustments. Accordingly figures shown as totals may not be an arithmetic aggregation of the figures preceding them.
- (3) Pursuant to the Underwriting Agreement, each Joint Underwriter has agreed that it will hold less than 10% of the total number of Shares in issue immediately upon completion of the Rights Issue. The Joint Underwriters have separately entered into sub-underwriting agreements with certain sub-underwriters to ensure that each Joint Underwriter will hold less than 10% of the total number of Shares in issue upon the completion of the Rights Issue. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, each of the sub-underwriters is an Independent Third Party.
- (4) The Company shall ensure the minimum percentage of public float prescribed by the Stock Exchange is complied with.

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## LETTER FROM THE BOARD

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### PREVIOUS EQUITY FUND RAISING BY THE COMPANY

The Company has not undertaken any equity fund raising exercise in the 12-month period immediately preceding the Latest Practicable Date.

### POSSIBLE ADJUSTMENTS TO THE SHARE OPTIONS

As a result of the Rights Issue, the exercise price and the number of Shares to be issued pursuant to the Share Option Scheme may be adjusted in accordance with the respective terms and conditions of the said Share Option Scheme and the Listing Rules or guidelines issued by the Stock Exchange, upon the completion of the Rights Issue and from time to time. Further announcement will be made by the Company in respect of such adjustments as and when appropriate.

### BUSINESS REVIEW OF THE GROUP AND PROSPECTS

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

The Group's revenue for the year ended 31 December 2013 declined by 7.8% to USD437.3 million (2012: USD474.5 million) due to unfavorable global coking coal market conditions. 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.

The Group's revenue for the six months ended 30 June 2014 declined by 22.3% to USD192.6 million as compared to USD247.8 million during the first half of 2013 due to continued pressure on coking coal prices and to a lesser extent due to lower sales volume. The Group's gross profit for the six months ended 30 June 2014 was approximately USD20.5 million, representing a decrease of approximately USD7.8 million or 27.7% from the gross profit of approximately USD28.3 million recorded for the six months ended 30 June 2013. The decrease in the average selling price for coking coal products supplied by the Group was a result of decreased demand from coke plants and steel mills in China and reducing output due to global economic conditions. For the six months ended 30 June 2014, gross profit margin was 10.6% remaining at comparable level with 11.4% reported for the six months ended 30 June 2013.

As disclosed in the annual report of the Company for the year ended 31 December 2013 and the interim report of the Company for the six months ended 30 June 2014, the global coking coal market had experienced significant downward pressure on selling prices due to the imbalance of supply and demand, and the recovery trajectory for the pricing of coking coal in China and globally remains uncertain in the second half of 2014. Sizeable reduction in forecast coal output for the second half of 2014 was announced in August 2014 by one of the largest



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coal producers in China, signaling that other Chinese coal producers may follow suit. Such measures follow production cuts announced in the first half of this year by various global coal producers in North America and Australia. In parallel with significant reduction to the investment made in support of increasing coal production capacity, according to the published reports, this may provide the required support to improve the equilibrium which is expected to serve as a base for supporting both domestic and seaborne coking coal pricing towards the end of 2014. 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.

The management considers that, with all major development project related capital expenditure complete, liquidity improvement initiatives implemented and the maintenance of competitive cost structure by virtue of its robust production profile and efficient cost control measures, the Company is well positioned to face the 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) maximise asset utilisation to drive unit fixed costs down; (ii) support initiatives to improve transportation infrastructure and capability, in particular cross border railway development, to gain access to the Chinese railway network and connecting customers in China; (iii) explore opportunities for expanding and diversifying its business operations through potential strategic cooperation and joint venture agreements; and (iv) continue its strong commitment to safety, the environment and socially responsible operation.

The Company will continue to strengthen existing and create new long-term relations with its end-user customers, and will actively look at strategic long term partnerships to expand its relations and presence in China. Additionally, the Company will continue to monitor and assess the market situation whilst prioritising focus on the liquidity, working capital management, cost control, operational efficiency and productivity.

The Company aims to further optimise the allocation of its resources, and through the synergy brought about by the integration of its mining, processing, logistics and transportation operations, the Company will strive to expand its sales and distribution channels reaching the end-user customers located in the main steel producing regions in China.

Our coal price, production and sales volumes may vary from estimates due to a variety of factors including seasonality, prices of coal, supply-demand dynamics, and economic activities in China or Mongolia. In the first half of 2014, the Group sold approximately 1.9 Mt of hard coking coal and approximately 1.2 Mt of middlings. In the third quarter of 2014, while the Mongolian coking coal exports declined by 26% compared to the same period last year according to Mongolian Statistical Information Service, coinciding with a decline in coking coal imports in China during the period, the Group exported approximately 1.0 Mt of hard coking coal and approximately 0.2 Mt of middlings. Despite the challenging environment in the Chinese coal market which continued to put coal prices under pressure in the third quarter,

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## LETTER FROM THE BOARD

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there are a number of factors which could contribute to the stabilization of coal prices in the fourth quarter, including the winter restocking, and the price increases and production cuts already announced or may be announced by major Chinese domestic coal suppliers. The Company will (i) continue to monitor the development of the coal market in the fourth quarter and (ii) seek to implement measures to neutralise the impacts of potential adverse changes in the market including adjusting its production plan to take advantage of the new coal distribution channel under the C&F sales model.

### TAXATION

Shareholders are advised to consult their professional advisers regarding the taxation implications of the receipt, purchase, holding, exercising, disposing of or dealing in nil-paid Rights Shares or the fully-paid Rights Shares.

It is emphasised that none of the Company or any other party involved in this Rights Issue is providing any advice regarding, or accepts any responsibility for, any tax effects or liabilities of any Shareholder resulting from the Rights Issue, including, but not limited to, whether a Shareholder will be subject to tax on receipt of the nil-paid Rights Shares in its country of tax residence.

### WARNING OF THE RISKS OF DEALINGS IN SHARES AND RIGHTS SHARES

**The Shares have been dealt in on an ex-rights basis from 26 November 2014 (Wednesday). Dealings in the Rights Shares in nil-paid form are expected to take place from 5 December 2014 (Friday) to 12 December 2014 (Friday) (both dates inclusive). The Rights Issue is conditional upon the Underwriting Agreement becoming unconditional and not being terminated. It should also be noted that the Underwriting Agreement contains provisions granting the Joint Underwriters the right to terminate the Underwriting Agreement on the occurrence of certain events including force majeure. Please refer to the section headed “Termination of the Underwriting Agreement” in this Prospectus for further details. If the Underwriting Agreement does not become unconditional or is terminated, the Rights Issue will not proceed, in which case a further announcement will be made by the Company at the relevant time.**

Any Shareholder or other person dealing in Shares or other securities of the Company up to the date on which all conditions to which the Rights Issue is subject (as set out under the paragraph headed “Conditions of the Rights Issue” in this Prospectus) are fulfilled (and the date on which the right of termination of the Joint Underwriters under the Underwriting Agreement ceases) and any person dealing in nil-paid Rights Shares during the period from 5 December 2014 (Friday) to 12 December 2014 (Friday) (both days inclusive) will bear the risk that the Rights Issue may not become unconditional or may not proceed and are advised to exercise caution when dealing in the Shares and/or nil-paid Rights Shares. If in any doubt, Shareholders and other persons contemplating dealing in securities of the Company and potential investors are recommended to consult their professional advisers. Shareholders and potential investors

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## LETTER FROM THE BOARD

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should exercise caution in dealing in the securities of the Company. Any buying or selling of the securities of the Company from now up to the date on which all the conditions to which the Rights Issue is subject are fulfilled, and any buying or selling of nil-paid Rights Shares, is at each investor's own risk that the Rights Issue may not become unconditional and may not proceed.

### ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this Prospectus as well as information published by the Group on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.mmc.mn](http://www.mmc.mn)).

Yours faithfully,  
For and on behalf of the Board  
**Mongolian Mining Corporation**  
**Odjargal Jambaljamts**  
*Chairman*

**A. FINANCIAL INFORMATION OF THE GROUP**

Financial information of the Group for each of the three financial years ended 31 December 2013, respectively, and for the six months ended 30 June 2014 is disclosed in the following documents which have been published on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.mmc.mn](http://www.mmc.mn)):

- (i) the unaudited consolidated financial statements included in the Company's interim report for the six months ended 30 June 2014 (pages 61 to 89), in the independent review report issued by the Company's auditors, without qualifying the review conclusion, an emphasis of matter has been included to draw attention of the users of the interim financial report (pages 59 to 60);
- (ii) the audited consolidated financial statements included in the Company's annual report for the year ended 31 December 2013 (pages 129 to 204);
- (iii) the audited consolidated financial statements included in the Company's annual report for the year ended 31 December 2012 (pages 127 to 204); and
- (iv) the audited consolidated financial statements included in the Company's annual report for the year ended 31 December 2011 (pages 117 to 187).

**B. STATEMENT OF INDEBTEDNESS****Borrowings**

As at the close of business on 31 October 2014, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this Prospectus, the Group had the following indebtedness:

<b>Indebtedness</b>	<b>31 October 2014</b>
	<i>USD'000</i>
<b>Secured bank loans</b>	
Current portion	101,669
Non-current portion	142,176
	<u>243,845</u>
	-----
<b>Unsecured bank loans</b>	
Current portion	40,000
Non-current portion	-
	<u>40,000</u>
	-----

<b>Indebtedness</b>	<b>31 October 2014</b> <i>USD'000</i>
<b>Senior notes</b>	
Current portion	–
Non-current portion	595,607
	<u>595,607</u>
<b>Total borrowings</b>	<b><u>879,452</u></b>
Analysis of total borrowings repayable as follows:	
– Within 1 year or on demand	141,669
– After 1 year but within 2 years	123,606
– After 2 years but within 5 years	614,177
– After 5 years	–
<b>Total borrowings</b>	<b><u>879,452</u></b>

As at the close of business on 31 October 2014, the Group had available banking facilities of approximately USD420.0 million, including (1) the BNP and ICBC Facility of USD200.0 million (including a greenshoe option of up to USD50.0 million); (2) USD180.0 million facility under EBRD, FMO and DEG Loan Agreements; and (3) USD40.0 million revolving credit line from Trade and Development Bank of Mongolia. Out of such available facilities, a total of USD370.0 million was drawn and bore interest at the prevailing market rates.

Save as aforesaid or otherwise disclosed herein and apart from intra-group liabilities, at the close of business on 31 October 2014, none of the members of the Group had (a) any debt securities issued and outstanding, and authorised or otherwise created but unissued; (b) any term loans; (c) any borrowings or indebtedness in the nature of borrowing including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptances credits or hire purchase commitments; (d) any debentures, mortgages or charges; or (e) any guarantee or other material contingent liabilities.

**Pledge of assets**

At the close of business on 31 October 2014, the Group pledged Energy Resources LLC's ("ER") 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; engineering, procurement and construction management contract for the CHPP constructed at the UHG site with Sedgman LLC; CHPP modules 1 and 2; UHG Power Plant; and certain 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 Inner Mongolia Risun Coal Industry Co., Ltd, Shenhua Bayannaer Energy Co., Ltd, and Inner Mongolia Qinghua Group of China, and coal stockpile of ER for the BNP and ICBC Facility.

Share pledges of Mongolian Coal Corporation Limited and Mongolian Coal Corporation S.a.r.l. are shared among the BNP and ICBC Facility and the USD600.0 million Senior Notes.

ER pledged its 4,207,500 common shares, being 16.46% common shares held by it in International Medical Center LLC pursuant to Share Pledge between ER and EBRD dated 24 June 2013 to secure loan repayment obligation of International Medical Center LLC in proportion to its equity interest in International Medical Center LLC.

The total amount of indebtedness covered with above pledges is USD839.5 million as at 31 October 2014.

**Disclaimer**

Save as disclosed above, and apart from intra-group liabilities and normal trade payables in normal course of business, as at the close of business on 31 October 2014, the Group did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptable credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

**C. WORKING CAPITAL**

The Directors are of the opinion that, after taking into account the financial resources presently available to the Group including internally generated funds, external borrowings and the estimated net proceeds from the Rights Issue in the absence of unforeseen circumstances, the Group has sufficient working capital for at least 125% of our present working capital requirements for at least the next twelve months following the date of this Prospectus.

**D. MATERIAL ADVERSE CHANGE**

The Directors confirmed that there had been no material adverse change in the financial or trading position or prospect of the Group since 31 December 2013, the date to which the latest published audited financial statements of the Group were made up, up to and including the Latest Practicable Date.

The unaudited pro forma financial information should be read in conjunction with Appendix I headed “Financial Information” in this Prospectus and the interim report of the Company for the six months ended 30 June 2014.

**(1) UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE  
LIABILITIES OF THE GROUP**

The unaudited pro forma statement of adjusted consolidated net tangible liabilities of the Group prepared in accordance with Rule 4.29 of the Listing Rules is set out below to illustrate the effect of the Rights Issue on the consolidated net tangible liabilities of the Group as if the Rights Issue had been completed on 30 June 2014.

The unaudited pro forma statement of adjusted consolidated net tangible liabilities of the Group has been prepared for illustrative purposes only, and because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Rights Issue been completed as of 30 June 2014 as at any future date.

The unaudited pro forma statement of adjusted consolidated net tangible liabilities of the Group is prepared based on the consolidated net liabilities of the Group as at 30 June 2014, as derived from the published interim report of the Company for the six months ended 30 June 2014, and adjusted as described in the accompanying notes.

For illustrative purposes only, set out below is the unaudited pro forma statement of adjusted consolidated net tangible liabilities of the Group after completion of the Rights Issue as if it had taken place as at 30 June 2014:

	Consolidated net tangible liabilities of the Group attributable to equity shareholders of the Company as at 30 June 2014 <i>USD'000</i> <i>(Note 1)</i>	Estimated net proceeds from the Rights Issue <i>USD'000</i> <i>(Note 2)</i>	Unaudited pro forma adjusted consolidated net tangible liabilities of the Group attributable to equity shareholders of the Company after completion of the Rights Issue <i>USD'000</i>
Based on 5,557,554,750 Rights Shares to be issued at subscription price of HKD0.28 per Rights Share	<u>(231,469)</u>	<u>195,464</u>	<u>(36,005)</u>
Consolidated net tangible liabilities per Share as at 30 June 2014 <i>(Note 3)</i>			<u>USD(6.25) cents</u>
Unaudited pro forma adjusted consolidated net tangible liabilities per Share, after completion of the Rights Issue of 5,557,554,750 Rights Shares <i>(Note 4)</i>			<u>USD(0.39) cents</u>

*Notes:*

- (1) The consolidated net tangible liabilities attributable to equity shareholders of the Company as at 30 June 2014 is based on the consolidated net assets attributable to equity shareholders of the Company of USD464,885,000 as disclosed in the published interim report of the Company for the six months ended 30 June 2014 after deduction of consolidated intangible assets of USD696,354,000.
- (2) The estimated net proceeds from the Rights Issue of approximately USD195,464,000 is based on 5,557,554,750 Rights Shares to be issued at the subscription price of HKD0.28 per Rights Share and after deduction of estimated related expenses of approximately HKD40,000,000. The 5,557,554,750 Rights Shares are calculated on the basis of three Rights Shares for every two existing Shares at the Record Date. For the purpose of the estimated net proceeds from the Rights Issue, the translation of Hong Kong dollars into United States dollars was made at the rate of USD1.00 to HKD7.7565.



- (3) The calculation of the consolidated net tangible liabilities per Share as at 30 June 2014 is based on the consolidated net tangible liabilities attributable to equity shareholders of the Company of USD231,469,000 and 3,705,036,500 Shares in issue as at 30 June 2014.
- (4) The unaudited pro forma adjusted consolidated net tangible liabilities per Share after completion of the Rights Issue is calculated based on the unaudited pro forma adjusted consolidated net tangible liabilities attributable to equity shareholders of the Company after completion of the Rights Issue of USD36,005,000 and on the basis of 9,262,591,250 Shares which would have been in issue had the Rights Issue been completed on 30 June 2014.

The Shares in issue represents:

– an aggregate of 3,705,036,500 Shares in issue as at 30 June 2014	3,705,036,500
– issue of 5,557,554,750 Rights Shares assuming the Rights Issue had been completed on 30 June 2014	<u>5,557,554,750</u>
	<u><u>9,262,591,250</u></u>

- (5) No adjustments have been made to the unaudited pro forma adjusted consolidated net tangible liabilities of the Group to reflect any trading results or other transactions of the Group entered into subsequent to 30 June 2014.

**(2) INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE  
COMPILATION OF PRO FORMA FINANCIAL INFORMATION**

*The following is the text of an accountants' report received from KPMG, for inclusion in this Prospectus, in respect of the unaudited pro forma statement of adjusted net tangible liabilities of the Group as set out in this Appendix II.*



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

3 December 2014

**TO THE DIRECTORS OF MONGOLIAN MINING CORPORATION**

We have completed our assurance engagement to report on the compilation of pro forma financial information of Mongolian Mining Corporation (the "Company") and its subsidiaries (collectively the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible liabilities of the Group as at 30 June 2014 and related notes as set out in Part 1 of Appendix II to the prospectus dated 3 December 2014 (the "Prospectus") issued by the Company. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in Part 1 of Appendix II to the Prospectus.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed rights issue of ordinary shares on the basis of three new rights shares for every two existing ordinary shares (the "Rights Issue") on the Group's financial position as at 30 June 2014 as if the Rights Issue had taken place at 30 June 2014. As part of this process, information about the Group's financial position as at 30 June 2014 has been extracted by the Directors from the interim report of the Group for the six months ended 30 June 2014, on which a review report has been published.

**Directors' Responsibilities for the Pro Forma Financial Information**

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

**Reporting Accountants' Responsibilities**

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements ("HKSAE") 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules, and with reference to AG 7 issued by the HKICPA.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the events or transactions at 30 June 2014 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

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

**Opinion**

In our opinion:

- (a) the pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

**KPMG**

*Certified Public Accountants*

Hong Kong

## 1. RESPONSIBILITY STATEMENT

This Prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this Prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this Prospectus misleading.

## 2. SHARE CAPITAL

The authorised and issued share capital of the Company (i) as at the Latest Practicable Date and (ii) immediately after completion of the Rights Issue is set out as follows:

(i) As at the Latest Practicable Date

<i>Authorised:</i>		<i>USD</i>
<u>15,000,000,000</u>	Shares	<u>150,000,000</u>
<i>Issued and fully-paid:</i>		
<u>3,705,036,500</u>	Shares	<u>37,050,365</u>

(ii) Immediately after completion of the Rights Issue

<i>Authorised:</i>		<i>USD</i>
<u>15,000,000,000</u>	Shares	<u>150,000,000</u>
<i>Issued and fully-paid:</i>		
3,705,036,500	Shares	37,050,365
5,557,554,750	Rights Shares	55,575,548
<u>9,262,591,250</u>	Total	<u>92,625,913</u>

All the existing Shares in issue are fully-paid and rank pari passu in all respects including all rights as to dividends, voting and return of capital. The Rights Shares (when allotted, issued and fully-paid) will rank pari passu with the then existing Shares in issue in all respects. Holders of fully-paid Rights Shares will be entitled to receive all future dividends and distributions which may be declared, made or paid on or after the date of allotment of the Rights Shares.

No part of the share capital or any other securities of the Company is listed or dealt in on any stock exchange other than the Stock Exchange and no application is being made or is currently proposed or sought for the Shares or Rights Shares or any other securities of the Company to be listed or dealt in on any other stock exchange.

Save for the Share Options, as at the Latest Practicable Date, the Company did not have any outstanding warrants, options or securities convertible into Shares.

As at the Latest Practicable Date, there was no arrangement under which future dividends are waived or agreed to be waived.

### 3. DISCLOSURE OF INTERESTS

#### (a) Director's interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, so far as is known to the Directors or the chief executive of the Company, the following persons had, or were deemed or taken to have, interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

#### *Interests in the Shares*

Name of Directors	Nature of Interest	Number of Shares held	Approximate
			percentage of issued share capital of the Company
Mr. Odjargal Jambaljamts (Note 1)	Interest of controlled corporation	1,425,809,605 (L)	38.48%
		1,148,190,630 (S)	30.99%
Mr. Od Jambaljamts (Note 2)	Interest of controlled corporation	1,347,455,493 (L)	36.37%
		1,254,495,537 (S)	33.86%
Mr. Adilbish Gankhuyag (Note 3)	Interest of controlled corporation	11,819,579 (L)	0.32%
		11,819,579 (S)	0.32%
Dr. Oyungerel Janchiv (Note 4)	Interest of controlled corporation	112,833,333 (L)	3.05%
Mr. Batsaikhan Purev (Note 5)	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 the Company. Novel Holdings Group Limited also directly holds 184,659,019 shares in the Company.
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 the Company. Trimunkh Limited also directly holds 106,304,907 shares and has a short position in 106,304,907 shares in the Company.
3. Mr. Gankhuyag Adilbish, through Tugs Investment Limited which is 100% owned by him, holds 11,819,579 shares and has a short position in 11,819,579 shares in the Company.
4. Dr. Oyungerel Janchiv, through Lotus Amsa Limited which is 100% owned by her, holds 112,833,333 shares in the Company.
5. 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.

*Interest in the Underlying Shares*

Name of Director	Nature of Interest	Total number of underlying Shares held pursuant to Share Options under the Share Option Scheme	Approximate percentage of issued share capital of the Company
Dr. Battseengel Gotov	Beneficial owner	8,000,000 (L)	0.22%

(L) – long position

**(b) Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial Shareholders**

As at the Latest Practicable Date, so far as is known to the Directors or the chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have, an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, were directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any option in respect of such capital:

*Interests in the Shares/underlying Shares*

Name of Substantial Shareholders	Nature of Interest	Number of Shares/ underlying Shares held	Approximate percentage of issued share capital of the Company
MCS Mining Group Limited ( <i>Note 1</i> )	Beneficial Owner	1,241,150,586 (L)	33.50%
		1,148,190,630 (S)	30.99%
MCS (Mongolia) Limited ( <i>Note 1</i> )	Interest of controlled corporation	1,241,150,586 (L)	33.50%
		1,148,190,630 (S)	30.99%
Novel Holdings Group Limited ( <i>Note 1</i> )	Interest of controlled corporation/ Beneficial owner	1,425,809,605 (L)	38.48%
		1,148,190,630 (S)	30.99%
Trimunkh Limited ( <i>Note 1</i> )	Interest of controlled corporation/ Beneficial Owner	1,347,455,493 (L)	36.37%
		1,254,495,537 (S)	33.86%
Ms. Batmunkh Dashdeleg ( <i>Note 1</i> )	Interest of spouse	1,425,809,605 (L)	38.48%
		1,148,190,630 (S)	30.99%
Ms. Munkhsuren Surenkhuu ( <i>Note 1</i> )	Interest of spouse	1,347,455,493 (L)	36.37%
		1,254,495,537 (S)	33.86%
Kerry Mining (UHG) Limited (“KMUHG”) ( <i>Note 2</i> )	Beneficial Owner	300,000,000 (L)	8.10%
Kerry Mining (Mongolia) Limited (“KMM”) ( <i>Note 2</i> )	Interest of controlled corporation	300,000,000 (L)	8.10%
Fexos Limited (“Fexos”) ( <i>Note 2</i> )	Interest of controlled corporations	302,363,529 (L)	8.16%
Kerry Holdings Limited (“KHL”) ( <i>Note 2</i> )	Interest of controlled corporations	302,363,529 (L)	8.16%
Kerry Group Limited (“KGL”) ( <i>Notes 2 and 3</i> )	Interest of controlled corporations	412,172,352 (L)	11.12%
Genesis Asset Managers, LLP	Investment manager	222,167,638 (L)	6.00%
BNP Paribas S.A.	Interest of controlled corporation/ Beneficial owner	969,003,731 (L)	10.39%
		968,970,231 (S)	10.39%
JPMorgan Chase & Co.	Interest of controlled corporation	1,001,661,030 (L)	10.73%
		968,970,231 (S)	10.38%
		32,502,299 (P)	0.34%

(L) – Long position (S) – Short position (P) – Lending pool



*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 the Company. Novel Holdings Group Limited directly holds 184,659,019 shares in the Company. Trimunkh Limited also directly holds 106,304,907 shares in the Company and has a short position in 106,304,907 shares in the Company. Ms. Batmunkh Dashdeleg is the spouse of Mr. Odjargal Jambaljamts, and Ms. Munkhsuren Surenkhuu is the spouse of Mr. Od Jambaljamts.
- (2)
  - (a) KМУHG 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 KМУHG 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, so far as is known to the Directors or the chief executive of the Company, as at the Latest Practicable Date, no other person (other than a Director or chief executive of the Company) had, or was deemed or taken to have, an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or was directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group or had any option in respect of such capital.

As at the Latest Practicable Date, save for Mr. Odjargal Jambaljamts, Mr. Od Jambaljamts and Mr. Gankhuyag Adilbish, none of the Directors is a director or employee of MCS Mining Group.

#### **4. DIRECTORS’ INTERESTS IN CONTRACT AND ASSETS**

As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any assets which have been, since 31 December 2013 (being the date to which the latest published audited financial statements of the Company were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors was materially interested in any subsisting contract or arrangement which is significant in relation to the business of the Group.

**5. DIRECTORS' SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

**6. LITIGATION**

No member of the Group was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened against any member of the Group as at the Latest Practicable Date.

**7. COMPETING INTERESTS**

As at the Latest Practicable Date, so far as the Directors are aware of, none of the Directors or any of their respective associates had any interest in business which competes with or may compete with the business of the Group or had any other conflict of interests which any person has or may have with the Group.

**8. EXPERTS AND CONSENTS**

The following is the qualification of the expert who has been named in this Prospectus or has given opinions, letter or advice contained in this Prospectus:

<b>Name</b>	<b>Qualification</b>
KPMG	Certified Public Accountants

KPMG has given and has not withdrawn its written consent to the issue of this Prospectus with the inclusion therein of its letter dated 7 November 2014, and/or reference to its name, in the form and context in which they appear.

As at the Latest Practicable Date, the above expert was not beneficially interested in the share capital of any member of the Group nor had any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group, nor did it have any interest, either directly or indirectly, in the assets which have been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group, since 31 December 2013, being the date to which the latest published audited consolidated financial statements of the Group were made up.

**9. MATERIAL CONTRACTS**

The Group had entered into the following contracts within two years immediately preceding the date of this Prospectus and up to the Latest Practicable Date which are contracts not being in the ordinary course of business of the Company or may be material:

- (i) shareholders' agreement dated 7 April 2014 entered into among Energy Resources LLC, Lodestar Investment Pte Ltd, Erdenes Tavan Tolgoi JSC and Tavan Tolgoi JSC in connection with the formation of the joint venture company, Gashuun Sukhait Railway LLC;
- (ii) joint venture agreement dated 25 June 2014 entered into between Mongolian Coal Corporation Limited and Risun Mining Co., Ltd in connection with the formation of a joint venture company, Tianjin Zhengcheng Import and Export Trade Co., Ltd; and
- (iii) the Underwriting Agreement dated 31 October 2014.

**10. CORPORATE INFORMATION AND PARTIES INVOLVED IN THE RIGHTS ISSUE**

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
Authorised representatives in Hong Kong	Dr. Battsengel Gotov 16th Floor, Central Tower Sukhbaatar District Ulaanbaatar 14200 Mongolia
	Ms. Ng Sin Yee, Clare Level 54, Hopewell Centre 183 Queen's Road East Hong Kong
Company secretary	Ms. Ng Sin Yee, Clare

Joint Underwriters of the Rights Issue	BNP Paribas and J.P. Morgan
Legal advisers to the Company in respect of the Rights Issue	As to Cayman Islands law: Conyers Dill & Pearman (Cayman) Limited 2901 One Exchange Square 8 Connaught Place, Central Hong Kong  As to Hong Kong law and US law: Davis Polk & Wardwell 18th Floor, The Hong Kong Club Building 3A Chater Road Hong Kong  As to Mongolian law: ELC LLP Advocates Suite 62, Grand Office Center Sukhbaatar District, 1st Khoroo Jamiyan Gun Street-12, Olympic Street-3 Ulaanbaatar-14253 Mongolia
Legal advisers to the Joint Underwriters in respect of the Rights Issue	As to Hong Kong law and US law: Paul Hastings 21-22/F, Bank of China Tower 1 Garden Road Hong Kong
Auditors	KPMG 8th Floor, Prince's Building 10 Chater Road 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)  BNP Paribas, Singapore Branch  Industrial and Commercial Bank of China Limited  Citibank, N.A., Hong Kong Branch  The Bank of East Asia, Limited, Hong Kong  Standard Chartered Bank (Hong Kong) Limited  Golomt Bank of Mongolia  Khan Bank of Mongolia  Trade and Development Bank of Mongolia
Stock code	00975
Website	<a href="http://www.mmc.mn">http://www.mmc.mn</a>

## 11. EXPENSES

The expenses in connection with the Rights Issue, including financial advisory fees, underwriting commission, printing, registration, translation, legal and accountancy charges are estimated to be approximately HKD40 million, which are payable by the Company.

## 12. PARTICULARS OF DIRECTORS

## (a) Name and address of Directors

<b>Name</b>	<b>Address</b>
<i>Executive Directors</i>	
Mr. Odjargal Jambaljamts	Bella Vista Town House 15 11th Housing Committee (Khoroo) Khan-Uul District Ulaanbaatar Mongolia
Dr. Battsengel Gotov	Apartment 203 Building 200 Bella Vista 11th Housing Committee (Khoroo) Khan-Uul District Ulaanbaatar Mongolia
<i>Non-Executive Directors</i>	
Dr. Oyungerel Janchiv	Apartment 401 Building 202 Royal Green Villa 11th Housing Committee Section 2 Khan-Uul District Ulaanbaatar Mongolia
Mr. Batsaikhan Purev	Apartment 501 Building 205 Royal Green Villa, Section 2 11th Housing Committee Ulaanbaatar Mongolia

<b>Name</b>	<b>Address</b>
Mr. Od Jambaljamts	Apartment 2 Building 40/5 Beijing Street, 7th Housing Committee Sukhbaatar District Ulaanbaatar Mongolia
Mr. Gankhuyag Adilbish	Apartment 212 Building 200 Bella Vista, Section 4 11th Housing Committee (Khoroo) Khan-Uul District Ulaanbaatar Mongolia
<i>Independent non-executive Directors</i>	
Mr. Ochirbat Punsalmaa	Building 11, Olympic Street 1st Housing Committee Sukhbaatar District Ulaanbaatar Mongolia
Mr. Unenbat Jigjid	Apartment 9 Building 26/1 2nd Housing Committee Sukhbaatar District Ulaanbaatar Mongolia
Mr. Chan Tze Ching, Ignatius	Flat 6D, Portofino Villas 88 Pak To Avenue Clearwater Bay Kowloon Hong Kong

**(b) Profiles of Directors***Executive Directors*

Mr. Odjargal Jambaljamts, chairman, aged 49, 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 of the Company. 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 the MCS Mining Group. Mr. Jambaljamts is a director of Starain Limited since January 2011, director of Novel International Investment Limited and director of Novel Holdings Group Limited, our Controlling Shareholder, since March 2012. He was appointed as a director of MCS (Mongolia) Limited, also our Controlling Shareholder, and MCS Mining Group on 3 July 2012. Mr. Jambaljamts is the brother of Mr. Od Jambaljamts, a non-executive Director and our Controlling Shareholder. 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.

Dr. Battsengel Gotov, aged 42, 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.



*Non-executive Directors*

Dr. 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 Chairperson of Petrovis LLC, the largest petroleum import and distribution company in Mongolia. She is also the largest shareholder of Petrovis Matad Inc., which is the largest shareholder of Petro Matad Limited. 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.

Mr. Batsaikhan Purev, aged 48, 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.

Mr. Od Jambaljamts, aged 50, 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 of the Company. 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 our Controlling Shareholder. Mr. Jambaljamts is also a director of MCS (Mongolia) Limited and MCS Mining Group since July 2012 and director of Trimunkh Limited since July 2011, all of which are Controlling Shareholders. 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.

Mr. Gankhuyag Adilbish, aged 37, is a non-executive Director of the Company. He was appointed as a non-executive Director of the Company on 13 October 2014. Mr. Adilbish is also a member of the Audit Committee of the Company. He is a representative of MCS Group. Mr. Adilbish is currently the managing director of MCS Holding LLC. Mr. Adilbish joined the MCS Group in 1999 as a financial analyst of MCS International LLC, the former holding company of MCS Holding LLC, and was subsequently appointed as the deputy managing director of MCS Electronics LLC, a subsidiary of MCS Holding LLC in 2000. Mr. Adilbish became the vice president and chief financial officer of MCS Holding LLC in 2005 and the managing director of MCS Holding LLC in 2009. Mr. Adilbish also sits on the board of directors of a number of subsidiaries of MCS Holding LLC and its joint venture companies. Mr. Adilbish was awarded a bachelor's degree in finance and economics by the National University of Mongolia.

#### *Independent non-executive Directors*

Mr. 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 of the Company. During 1972 to 1990, Mr. Punsalmaa held various positions with the Government of Mongolia, 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.

Mr. Unenbat Jigjid, aged 52, 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 of the Company. 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.

Mr. 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 of the Company. 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, 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 is a member of the Sponsorship and Development Fund of The Open University of Hong Kong for the period from 1 March 2013 to 28 February 2015. He is also an Honorary Advisory Vice President of The Hong Kong Institute of Bankers for the period from December 2013 to December 2016. 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 was also appointed as a non-executive director of Rizal Commercial Banking Corporation, the shares of which are listed on the Philippines Stock Exchange on 28 November 2011. Mr. Chan was an independent non-executive director of Larry Jewelry International Company Limited, the shares of which are listed on the Stock Exchange for the period from 28 November 2012 to 20 June 2014. 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.

**13. PARTICULARS OF SENIOR MANAGEMENT**

Oyunbat Lkhagvatsend, aged 38, 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.

Samuel Bowles, aged 33, 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 Enrestechology 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, 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 Officer 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.

**14. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES**

A copy of each of the Rights Issue Documents and the written consent given by KPMG as referred to in the section headed “Expert and Consent” in this Appendix III have been delivered to the Registrar of Companies pursuant to section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

**15. LEGAL EFFECT**

The Rights Issue Documents and all acceptance of any offer or application contained in such documents are governed by and shall be construed in accordance with the laws of Hong Kong. Where an application is made in pursuance of any such documents, the relevant document(s) shall have the effect of rendering all person concerned bound by the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

**16. MISCELLANEOUS**

- (a) The company secretary of the Company is Ms. Ng Sin Yee, Clare, who is a member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in United Kingdom.
- (b) The English text of this Prospectus shall prevail over the Chinese text in the event of inconsistency.

**17. DOCUMENTS FOR INSPECTION**

Copies of the following documents are available for inspection during normal business hours in any weekday (excluding Saturdays, Sundays and public holidays) at the office of the Company at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong from the date of this Prospectus up to and including the date of the EGM:

- (a) the Articles;
- (b) the annual reports of the Company for the years ended 31 December 2012 and 2013 and the interim report of the Company for the six months ended 30 June 2014;
- (c) the report issued by KPMG regarding the unaudited pro forma financial information as set out in Appendix II of this Prospectus;
- (d) the written consent given by KPMG referred to in the paragraph headed “Experts and Consents” in this Appendix;
- (e) the material contracts referred to in the paragraph headed “Material Contracts” in this Appendix; and
- (f) this Prospectus.