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## **MONGOLIAN MINING CORPORATION**

*(Incorporated in the Cayman Islands with Limited Liability)*

**(Stock Code: 975)**

### **INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2015**

#### **FINANCIAL HIGHLIGHTS**

For the six months ended 30 June 2015, Mongolian Mining Corporation (“**MMC**” or the “**Company**”) and its subsidiaries (the “**Group**”) mined a total of 2.2 million tonnes (“**Mt**”) of run-of-mine (“**ROM**”) coal and sold a total of 1.0 Mt of coal products, generating a total revenue of United States Dollar (“**USD**”) 71.8 million, compared to 6.5 Mt of ROM coal mined and 3.2 Mt coal products sold with total revenue of USD192.6 million for the six months ended 30 June 2014. The decrease in total revenue was attributable to the continuing further downward pressure on coking coal price which was caused by oversupply which led to a lower sales volume of washed hard coking coal (“**HCC**”). The average selling price (“**ASP**”) of HCC was USD64.1 per tonne for the six months ended 30 June 2015 compared to USD86.2 for the six months ended 30 June 2014, representing a decrease of 25.6%. The ASP of sales under Free-on-Transport (“**FOT**”) and Cost-and-Freight (“**C&F**”) terms were USD77.0 per tonne and USD110.4 per tonne, respectively during the first half of 2015, compared to USD99.1 and USD124.1 in the first half of 2014, respectively. The ASP of sales under Delivery-at-Place (“**DAP**”) Ganqimaodu (“**GM**”) terms was USD54.2 per tonne in the first half of 2015, compared to USD72.7 per tonne in the first half of 2014, representing a decrease of 25.4%.

The Group sold approximately 0.6 Mt of HCC, representing 56.1% of total sales volume, under DAP GM terms generating USD30.9 million revenue and 0.4 Mt of coal products with revenue of USD40.9 million under FOT and C&F terms for the six months ended 30 June 2015. For the six months ended 30 June 2014, sales volume under DAP GM terms was approximately 2.5 Mt, representing 79.2% of total sales volume, with revenue of USD119.1 million, and 0.7 Mt of HCC was sold under FOT and C&F terms with revenue of USD73.6 million.

The loss attributable to the equity shareholders of the Company for the six months ended 30 June 2015 was USD79.1 million, compared to a loss of USD28.0 million for the six months ended 30 June 2014. The basic loss per share attributable to the equity shareholders of the Company amounted to USD0.85 cents for the six months ended 30 June 2015, as compared to basic loss per share of USD0.61 cents for the six months ended 30 June 2014.

Major contributing factor of the Group’s net loss position is the further downward pressure on ASP of coking coal products amid competitive market conditions driven by the continued imbalance of global coking coal supply and demand and lower sales volume of HCC.

The Board does not recommend the payment of dividend for the six months ended 30 June 2015 (dividend for the six months ended 30 June 2014: nil).

*Note: All numbers in this announcement are approximate rounded values for particular items.*

The board (the “**Board**”) of directors (the “**Directors**”) of MMC is announcing the unaudited consolidated interim results of the Group for the six months ended 30 June 2015 together with the comparative figures for the corresponding period in 2014 as follows:

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

*For the six months ended 30 June 2015 - unaudited*

		<b>Six months ended 30 June</b>	
		<b>2015</b>	2014
	<i>Note</i>	<i>USD'000</i>	<i>USD'000</i>
Revenue	5	<b>71,804</b>	192,638
Cost of revenue	6	<u>(97,145)</u>	<u>(172,177)</u>
<b>Gross (loss)/ profit</b>		<b>(25,341)</b>	20,461
Other revenue		<b>330</b>	2,677
Other net (loss)/ income		<b>(470)</b>	34,446
Selling and distribution costs		<b>(5,500)</b>	(25,031)
General and administrative expenses		<u>(11,993)</u>	<u>(16,343)</u>
<b>(Loss)/ profit from operations</b>		<b>(42,974)</b>	16,210
Finance income	7(a)	<b>3,021</b>	1,944
Finance costs	7(a)	<u>(45,939)</u>	<u>(47,725)</u>
Net finance costs	7(a)	<u>(42,918)</u>	(45,781)
Share of losses of associates		<b>(8)</b>	(9)
Share of (losses)/ profits of joint venture		<u>(14)</u>	<u>1</u>
<b>Loss before taxation</b>	7	<b>(85,914)</b>	(29,579)
Income tax	8	<u>6,727</u>	<u>1,574</u>
<b>Loss for the period</b>		<b>(79,187)</b>	(28,005)
<b>Attributable to:</b>			
Equity shareholders of the Company		<b>(79,050)</b>	(28,005)
Non-controlling interests		<u>(137)</u>	<u>—</u>
<b>Loss for the period</b>		<u><b>(79,187)</b></u>	<u>(28,005)</u>
<b>Basic and diluted loss per share</b>	9	<u><b>(0.85) cents</b></u>	<u>(0.61) cents</u>

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Continued)***For the six months ended 30 June 2015 - unaudited*

	<b>Six months ended 30 June</b>	
	<b>2015</b>	<b>2014</b>
<i>Note</i>	<i>USD'000</i>	<i>USD'000</i>
<b>Loss for the period</b>	<b>(79,187)</b>	<b>(28,005)</b>
<b>Other comprehensive income for the period</b>		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation	<u><b>(22,949)</b></u>	<u><b>(69,743)</b></u>
<b>Total comprehensive income for the period</b>	<u><b>(102,136)</b></u>	<u><b>(97,748)</b></u>
<b>Attributable to:</b>		
Equity shareholders of the Company	<b>(101,999)</b>	<b>(97,748)</b>
Non-controlling interests	<u><b>(137)</b></u>	<u><b>—</b></u>
<b>Total comprehensive income for the period</b>	<u><b>(102,136)</b></u>	<u><b>(97,748)</b></u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 30 June 2015 - unaudited*

		At 30 June 2015 <i>USD'000</i>	At 31 December 2014 <i>USD'000</i>
	<i>Note</i>		
<b>Non-current assets</b>			
Property, plant and equipment, net	<i>10</i>	<b>573,793</b>	594,926
Construction in progress	<i>11</i>	<b>56,175</b>	58,421
Lease prepayments		<b>70</b>	73
Intangible assets	<i>12</i>	<b>510,631</b>	511,089
Interest in associates		<b>53</b>	63
Interest in joint venture		<b>—</b>	15
Other non-current assets		<b>34,905</b>	25,823
Deferred tax assets		<b>45,075</b>	37,968
		<hr style="border-top: 1px solid black;"/>	<hr style="border-top: 1px solid black;"/>
<b>Total non-current assets</b>		<b>1,220,702</b>	1,228,378
		<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
<b>Current assets</b>			
Assets held for sale		<b>366</b>	484
Inventories		<b>66,992</b>	48,900
Trade and other receivables	<i>13</i>	<b>137,372</b>	152,207
Cash at bank and in hand		<b>69,913</b>	252,856
		<hr style="border-top: 1px solid black;"/>	<hr style="border-top: 1px solid black;"/>
<b>Total current assets</b>		<b>274,643</b>	454,447
		<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
<b>Current liabilities</b>			
Short-term borrowings and current portion of long-term borrowings	<i>14</i>	<b>182,824</b>	114,818
Trade and other payables	<i>15</i>	<b>267,400</b>	298,118
Current taxation		<b>41</b>	68
Obligations under finance leases		<b>—</b>	8
		<hr style="border-top: 1px solid black;"/>	<hr style="border-top: 1px solid black;"/>
<b>Total current liabilities</b>		<b>450,265</b>	413,012
		<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
<b>Net current (liabilities)/assets</b>		<b>(175,622)</b>	41,435
		<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
<b>Total assets less current liabilities</b>		<b>1,045,080</b>	1,269,813
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## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 June 2015 - unaudited

		At 30 June 2015 USD'000	At 31 December 2014 USD'000
	<i>Note</i>		
<b>Non-current liabilities</b>			
Long-term borrowings, less			
current portion	<i>14</i>	<b>34,390</b>	161,978
Senior notes	<i>16</i>	<b>596,523</b>	595,906
Provisions		<b>14,305</b>	12,995
Deferred tax liabilities		<b>102,888</b>	101,640
Other non-current liabilities		<b>353</b>	456
<b>Total non-current liabilities</b>		<b><u>748,459</u></b>	<b><u>872,975</u></b>
<b>NET ASSETS</b>		<b><u>296,621</u></b>	<b><u>396,838</u></b>
<b>CAPITAL AND RESERVES</b>			
Share capital		<b>92,626</b>	92,626
Reserves		<b><u>203,840</u></b>	<b><u>303,920</u></b>
<b>Total equity attributable to equity shareholders of the Company</b>		<b>296,466</b>	396,546
<b>Non-controlling interests</b>		<b><u>155</u></b>	<b><u>292</u></b>
<b>TOTAL EQUITY</b>		<b><u>296,621</u></b>	<b><u>396,838</u></b>

## NOTES

### 1 CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands on 18 May 2010 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Group is principally engaged in the mining, processing, transportation and sale of coal products.

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

### 2 BASIS OF PREPARATION

The Group had net current liabilities of USD175,622,000 as at 30 June 2015 (as at 31 December 2014: net current assets of USD41,435,000) and made a loss of USD79,187,000 for the six months period then ended. These conditions indicate the existence of a material uncertainty which may cast significant doubt upon the going concern assumption.

It is anticipated that coal prices in the People’s Republic of China (“**PRC**”) will remain under pressure in the short term, which will continue to impact the Group’s margins and liquidity. Therefore, the Directors are pursuing additional sources of financing, seeking prepayments in negotiating new coal offtake agreements, negotiating payment terms with suppliers and creditors to ease cash flow demands, and discussing settlement methods with debtors to accelerate cash collection; in the meanwhile, the Directors are remaining focused on managing uncommitted capital expenditures to preserve the Group’s growth options.

Based on the Group’s business plan and cash flow forecast, and with the ongoing support from its bankers and its shareholders, the Directors believe it could have sufficient resources to cover its operating costs and to meet its financing commitments. Therefore the Directors are satisfied that the Group will be able to meet its financial obligations as and when they fall due for the twelve months from 30 June 2015. Accordingly, the Directors are of the opinion that it is appropriate to prepare this interim financial report on the going concern basis. This interim financial report does not include any adjustments relating to the carrying amount and reclassification of assets and liabilities that might be necessary should the Group be unable to continue as a going concern.

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”), including compliance with International Accounting Standard 34, *Interim financial reporting*, (“**IAS 34**”) issued by the International Accounting Standards Board (“**IASB**”). It was authorised for issue on 28 August 2015.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2014 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2015 annual financial statements. Details of these changes in accounting policies are set out in Note 3.

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. KPMG's independent review report to the Board of Directors is included in the interim report to be sent to shareholders.

### 3 CHANGES IN ACCOUNTING POLICIES

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

- Annual Improvements to IFRSs 2010-2012 Cycle
- Annual Improvements to IFRSs 2011-2013 Cycle

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

### 4 SEGMENT REPORTING

The Group has one business segment, the mining, processing, transportation and sale of coal products. The majority of its customers are located in China. Based on information reported to the chief operating decision maker for the purpose of resource allocation and performance assessment, the Group's only operating segment is the mining, processing, transportation and sale of coal products. Accordingly, no additional business and geographical segment information are presented.

### 5 REVENUE

The Group is principally engaged in the mining, processing, transportation and sale of coal products. Revenue represents the sales value of goods sold to customers exclusive of value added or sales taxes and after deduction of any trade discounts and volume rebates. The amount of each significant category of revenue recognised for the six months ended 30 June 2015 is as follows:

	<b>Six months ended 30 June</b>	
	<b>2015</b>	2014
	<i>USD'000</i>	<i>USD'000</i>
<b>Self-produced coal</b>		
HCC	<b>47,963</b>	164,305
Washed thermal coal	<b>1</b>	28,333
<b>Trading of coal procured from Chinese third party sources</b>	<b><u>23,840</u></b>	<u>—</u>
	<b><u>71,804</u></b>	<u>192,638</u>

Revenue during the six months ended 30 June 2015 include approximately USD17,063,000 (six months ended 30 June 2014: USD73,582,000) which arose from sales of HCC to customers through agent sales arrangements for diversifying and expanding the Group's sales channels.

## 6 COST OF REVENUE

	Six months ended 30 June	
	2015	2014
	USD'000	USD'000
Mining costs	20,169	70,342
Processing costs	7,783	19,349
Transportation costs	8,748	45,256
Provision for coal inventories	6,122	—
Others ( <i>Note (i)</i> )	<u>35,266</u>	<u>37,230</u>
Cost of revenue during mine operations	78,088	172,177
Cost of revenue during idled mine period ( <i>Note (ii)</i> )	<u>19,057</u>	<u>—</u>
Cost of revenue	<u>97,145</u>	<u>172,177</u>

*Notes:*

- (i) Others include cost of coal procured from Chinese third party sources and royalty tax for the coal exported from Mongolia.
- (ii) For the six months ended 30 June 2015, cost of revenue during idled mine period includes mining contractor costs and depreciation expense related to idled plant and equipment.



## 7 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging/(crediting):

### (a) Net finance costs:

	Six months ended 30 June	
	2015	2014
	USD'000	USD'000
Interest income	<u>(3,021)</u>	<u>(1,944)</u>
<b>Finance income</b>	<b><u>(3,021)</u></b>	<b><u>(1,944)</u></b>
Interest on bank and other borrowings	11,129	11,118
Net change in fair value of derivative component of senior notes	—	600
Interest on liability component of senior notes	27,242	27,168
Transaction costs	2,223	1,587
Unwinding interest on		
- Other long-term payables	—	6
- Accrued reclamation obligations	431	413
Less: Interest expense capitalised*	<u>—</u>	<u>(4,783)</u>
Net interest expense	41,025	36,109
Foreign exchange loss, net	<u>4,914</u>	<u>11,616</u>
<b>Finance costs</b>	<b><u>45,939</u></b>	<b><u>47,725</u></b>
<b>Net finance costs</b>	<b><u>42,918</u></b>	<b><u>45,781</u></b>

\* No borrowing costs have been capitalised during the six months ended 30 June 2015 and borrowing costs have been capitalised at a rate of 8.1% per annum for the six months ended 30 June 2014.

### (b) Staff costs:

	Six months ended 30 June	
	2015	2014
	USD'000	USD'000
Salaries, wages, bonuses and benefits	13,815	14,606
Retirement scheme contributions	1,565	1,762
Equity-settled share-based payment expenses	<u>1,919</u>	<u>1,666</u>
	<b><u>17,299</u></b>	<b><u>18,034</u></b>

Pursuant to the relevant labour rules and regulations in Mongolia, the Group participates in defined contribution retirement benefit schemes (the “Schemes”) organised by the Government of Mongolia (“GoM”) whereby the Group is required to make contributions to the Schemes at a rate of 7% of the eligible employees’ salaries. Contributions to the Schemes vest immediately.

The Group has no other material obligation for the payment of pension benefits beyond the annual contributions described above.

(c) **Other items:**

	<b>Six months ended 30 June</b>	
	<b>2015</b>	2014
	<i>USD’000</i>	<i>USD’000</i>
Depreciation and amortisation	<b>23,599</b>	25,011
Operating lease charges: minimum lease payments	<b>1,108</b>	2,269
Costs of inventories	<b>97,145</b>	172,177
Gain on disposal of property, plant and equipment and assets held for sale ( <i>Note (i)</i> )	<b>(60)</b>	(36,546)
Selling and distribution costs ( <i>Note (ii)</i> )	<b>5,500</b>	25,031

*Notes:*

- (i) Gain on disposal of property, plant and equipment and assets held for sale for the six months ended 30 June 2014 is related to gain on disposal of the paved road between Ukhaa Khudag (“UHG”) and the Gashuun Sukhait (“GS”) border crossing in Mongolia (the “UHG-GS Road”).

On 8 December 2013, the Group entered into a road transfer agreement with Erdenes MGL LLC (the “Agreement”), a state owned enterprise, which was assigned by the GoM to take control of the UHG-GS Road assets along with all rights and responsibilities in relation to the operation and maintenance of the road. According to the Agreement, the operating right of paved road was transferred to Erdenes MGL LLC with a consideration of Mongolian National Togrog (“MNT”) 157,847,184,615 (equivalent to approximately USD90,323,000 converted at exchange rate on payment receipt date) on 13 February 2014.

- (ii) Selling and distribution costs represent fees and charges incurred for exporting coal into China, logistics and transportation costs, governmental fees and charges and fixed agent fees associated with the market penetration strategy to diversify and expand sales channels in inland China.

## 8 INCOME TAX

(a) **Income tax in the consolidated statement of comprehensive income represents:**

	<b>Six months ended 30 June</b>	
	<b>2015</b>	2014
	<i>USD'000</i>	<i>USD'000</i>
Current tax	214	4,206
Deferred taxation	<u>(6,941)</u>	<u>(5,780)</u>
	<u><b>(6,727)</b></u>	<u><b>(1,574)</b></u>

(b) **Reconciliation between tax expense and accounting loss at applicable tax rates:**

	<b>Six months ended 30 June</b>	
	<b>2015</b>	2014
	<i>USD'000</i>	<i>USD'000</i>
Loss before income tax	<u><b>(85,914)</b></u>	<u>(29,579)</u>
Tax on loss before taxation, calculated at the rates applicable in profits/(loss) in the countries concerned	<b>(7,489)</b>	2,278
Tax effect of non-deductible expense (Note (iii))	<b>585</b>	442
Tax effect of non-taxable income (Note (iii))	<b>(821)</b>	(4,992)
Tax losses not recognised	<u><b>998</b></u>	<u>698</u>
Actual tax expenses	<u><b>(6,727)</b></u>	<u><b>(1,574)</b></u>

*Notes:*

- (i) Pursuant to the income tax rules and regulations of Mongolia, the Group is liable to Mongolian Enterprise Income Tax at a rate of 10% of first MNT3 billion taxable income and 25% of the remaining taxable income for the six months ended 30 June 2015 and 2014. According to the Corporate Income Tax Law of the PRC, the Company's subsidiary in the PRC is subject to statutory income tax rate of 25%.
- (ii) Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands. The Group is not subject to Hong Kong and Luxembourg profits tax as it has no assessable income arising in or derived from Hong Kong and Luxembourg during the six months ended 30 June 2015 and 2014.
- (iii) Non-deductible and non-taxable items represent mainly the unrealised exchange gain which is non-taxable and other non-deductible expenses and non-taxable income pursuant to the income tax rules and regulations of Mongolia and other related tax source regions during the six months ended 30 June 2015 and 2014.

## **9 LOSS PER SHARE**

### **(a) Basic loss per share**

The calculation of basic loss per share for the six months ended 30 June 2015 is based on the loss attributable to ordinary equity shareholders of the Company for the period of USD79,050,000 (six months ended 30 June 2014: loss attributable to ordinary equity shareholders of the Company of USD28,005,000) and the 9,262,591,250 ordinary shares (six months ended 30 June 2014: 4,624,692,827 ordinary shares after adjusting for the rights issue made in December 2014) in issue during the six months ended 30 June 2015. The Company completed the rights issue in December 2014. In calculating the loss per share, the weighted average number of shares outstanding during the six months ended 30 June 2015 and 2014 were calculated as if the bonus elements without consideration included in the rights issue had existed from the beginning of the comparative period.

### **(b) Diluted loss per share**

For the six months ended 30 June 2015 and 30 June 2014, basic and diluted loss per share are the same as the effect of the potential ordinary shares outstanding is anti-dilutive.

The equity-settled share-based payment transactions are anti-dilutive and therefore not included in calculating diluted loss per share for the six months ended 30 June 2015 and 30 June 2014.

## **10 PROPERTY, PLANT AND EQUIPMENT**

Mining properties of the Group as at 30 June 2015 include stripping activity assets carrying book value of USD230,258,000 (31 December 2014: USD223,451,000).

During the six months ended 30 June 2015, the additions of property, plant and equipment of the Group, representing mainly various mining structures, amounted to USD22,226,000 (six months ended 30 June 2014: USD142,195,000). Items of property, plant and equipment with net book value of USD276,000 were disposed of during the six months ended 30 June 2015 (six months ended 30 June 2014: USD3,232,000). As at 30 June 2015, certain of the Group's borrowings were secured by the Group's coal handling and preparation plant-modules I and II, power plant and water supply infrastructure assets-phase I with a net book value of USD96,220,000, USD25,364,000 and USD2,747,000, respectively (31 December 2014: USD105,290,000, USD27,629,000 and USD3,008,000, respectively).

## **11 CONSTRUCTION IN PROGRESS**

The construction in progress is mainly related to water supply extension facilities and other mining related machinery and equipment.

## **12 INTANGIBLE ASSETS**

Intangible assets represent the acquired mining right.

The Group recognised USD190,000,000 impairment loss on non-financial assets as of 31 December 2014 with reference to independent valuation report. The Directors closely monitor the market situation since then, and believe it has no indication of significant variance with those key assumptions used in the estimation made at year-end 2014. The Directors are of the opinion that the impairment provision is adequate as at 30 June 2015 and no additional or reversal of impairment provision is needed in respect of the Group's non-financial assets in this regard.

### 13 TRADE AND OTHER RECEIVABLES

	At 30 June 2015 <i>USD'000</i>	At 31 December 2014 <i>USD'000</i>
Trade receivables ( <i>Note (a)</i> )	30,884	36,952
Less: allowance for doubtful debts ( <i>Note (b)</i> )	(10,135)	(10,135)
	20,749	26,817
Other receivables ( <i>Note (c)</i> )	<u>116,623</u>	<u>125,390</u>
	<u>137,372</u>	<u>152,207</u>

*Notes:*

#### (a) Ageing analysis

Trade receivables (net of allowance for doubtful debts) are invoiced amounts due from the Group's customers which are due from the date of billing. Respective ageing analysis is as follows:

	At 30 June 2015 <i>USD'000</i>	At 31 December 2014 <i>USD'000</i>
Neither past due nor impaired	10,370	18,623
Less than 12 months past due	7,739	8,194
More than 12 months past due	<u>2,640</u>	<u>—</u>
	<u>20,749</u>	<u>26,817</u>

#### (b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly.

As at 30 June 2015, an allowance for doubtful debts amounts to USD10,135,000 (31 December 2014: USD10,135,000) which was made on a collective basis in respect of the Group's trade receivable balances outstanding at the balance sheet date. Receivables that were past due but not impaired relate to a number of independent customers that have good track record with the Group, or had reached payment schedules with the Group before the authorised issue of this interim financial report. Therefore, management anticipates full recovery of its remaining outstanding trade receivables; therefore, no further loss provisions have been recorded in respect of the Group's trade receivables.

(c) **Other receivables**

	At <b>30 June</b> <b>2015</b> <i>USD'000</i>	At 31 December 2014 <i>USD'000</i>
Amounts due from related parties ( <i>Note (i)</i> )	<b>469</b>	607
Prepayments and deposits ( <i>Note (ii)</i> )	<b>25,017</b>	31,448
VAT and other tax receivables ( <i>Note (iii)</i> )	<b>45,430</b>	35,786
Amounts due from the GoM in relation to the termination of the Concession Agreement ( <i>Note (iv)</i> )	<b>42,871</b>	44,408
Others	<u><b>2,836</b></u>	<u>13,141</u>
	<u><b>116,623</b></u>	<u>125,390</u>

*Notes:*

- (i) Amount due from related parties are unsecured, interest-free and have no fixed repayment terms.
- (ii) At 30 June 2015, prepayments and deposits mainly represent the prepayments made to the Group's mining contractor.
- (iii) Value added tax ("VAT") and other tax receivables include amounts that have been accumulated to date in certain subsidiaries and were due from the Tax Authority of Mongolia. Based on current available information the Group anticipates full recoverability of such amounts.
- (iv) It represented the compensation amount receivable from the GoM upon the termination of a Build-Operate-Transfer Concession Agreement (the "**Concession Agreement**") relating to the railway base infrastructure between UHG coking coal mine and GS border check point of Mongolia (the "**UHG-GS Railway**"), after taking into account of liabilities assumed by the GoM. The Group is negotiating with the GoM regarding the potential investment in a railway project of the GoM and the compensation amount could be converted into equity of a special purpose enterprise to be established by the GoM to implement the railway project and/or reimbursed.

All other receivables were expected to be recovered or expensed off within one year.

## 14 BORROWINGS

### (a) The Group's long-term interest-bearing borrowings comprise:

	At 30 June 2015 <i>USD'000</i>	At 31 December 2014 <i>USD'000</i>
Bank loan		
-secured	170,727	241,636
-unsecured	40,000	40,000
Less: Current portion of long-term borrowings		
less amortised transaction costs	(172,824)	(114,818)
Less: Unamortised transaction costs	<u>(3,513)</u>	<u>(4,840)</u>
	<u>34,390</u>	<u>161,978</u>

As at 30 June 2015, the Group's long-term interest-bearing borrowings from European Bank for Reconstruction and Development, Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V., and Deutsche Investitions-und Entwicklungsgesellschaft mbH (the "EBRD, FMO and DEG Loan") of USD46,364,000 (31 December 2014: USD81,818,000), USD9,818,000 (31 December 2014: USD13,091,000) and USD6,545,000 (31 December 2014: USD8,727,000), respectively, bearing interest of 6 months LIBOR + 3.75%~4.25% per annum were secured by the Group's property, plant and equipment and cash at bank.

As at 30 June 2015, the Group's long-term interest-bearing borrowings from BNP Paribas, Singapore Branch and Industrial and Commercial Bank of China Limited ("BNP and ICBC Facility") of USD108,000,000 (31 December 2014: USD138,000,000), bearing interest of LIBOR + 6.00%, were secured by the Group's cash at bank and inventory. The attributable transaction cost amounts to USD3,110,000. The BNP Paribas facility was initially contracted with Standard Bank Plc. On 18 December 2013, the Standard Bank Plc transferred all of its rights, title and interest in (and obligations under) the facility to BNP Paribas, Singapore Branch. On 5 March 2014, the facility was refinanced to a facilities agreement, the BNP and ICBC Facility, with the two international banks as arrangers and original lenders. The BNP and ICBC Facility relates to the provision of a coal pre-export loan facility of USD150,000,000 bearing interest of LIBOR + 6.00%.

The Group's long-term borrowings are repayable as follows:

	At 30 June 2015 <i>USD'000</i>	At 31 December 2014 <i>USD'000</i>
Within 1 year or on demand	173,227	114,818
After 1 year but within 2 years	<u>37,500</u>	<u>166,818</u>
	<u>210,727</u>	<u>281,636</u>

(b) **The Group's short-term interest-bearing borrowings comprises:**

	At 30 June 2015 <i>USD'000</i>	At 31 December 2014 <i>USD'000</i>
Bank loans		
- Unsecured	<b>10,000</b>	—
Current portion of long-term borrowings (bank loans)	<b>173,227</b>	114,818
Less: Amortised transaction costs	<u><b>(403)</b></u>	<u>—</u>
	<u><b>182,824</b></u>	<u>114,818</u>

In March 2014, the Group refinanced short-term loans of USD 40,000,000 into a revolving credit facility, and extended its maturity date to 20 March 2015 with an interest of 10.0% per annum. On 31 December 2014, the maturity date was extended to 20 March 2016, and interest for the extension period is 11.20% per annum.

Certain bank loans of the Group are subject to the fulfillment of covenants relating to certain of the Group's financial ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the draw down loan balances would become payable on demand. During the six months ended 30 June 2015, the Group negotiated with the banks and was granted with waivers from the banks. According to the waivers, the Group did not breach any financial covenants in respect of loans during the six months ended 30 June 2015.

**15 TRADE AND OTHER PAYABLES**

	At 30 June 2015 <i>USD'000</i>	At 31 December 2014 <i>USD'000</i>
Trade payables ( <i>Note (i)</i> )	<b>103,330</b>	125,217
Receipts in advance ( <i>Note (ii)</i> )	<b>24,180</b>	16,866
Amounts due to related parties ( <i>Note (iii)</i> )	<b>10,621</b>	8,102
Payables for purchase of equipment	<b>5,185</b>	4,858
Security deposit on construction work	<b>2,899</b>	1,340
Interest payable	<b>16,002</b>	18,081
Other taxes payables	<b>13,235</b>	20,782
Promissory notes ( <i>Note (iv)</i> )	<b>69,403</b>	66,601
Others ( <i>Note (v)</i> )	<u><b>22,545</b></u>	<u>36,271</u>
	<u><b>267,400</b></u>	<u>298,118</u>

*Notes:*

- (i) All trade payables are due and payable on presentation or within two months.



- (ii) Receipts in advance represent payments in advance made by third party customers in accordance with the terms set out in respective sales agreements.
- (iii) Amounts due to related parties represent payables for equipment, construction work and services provided, which are unsecured, interest-free and have no fixed terms of repayments.
- (iv) On 27 November 2012, the Company issued two promissory notes to QGX Holdings Ltd., each in the amount of USD52,500,000, and shall bear interest at a rate of 3.0% per annum commencing on the issue date to the maturity date. The original maturity date was 22 November 2013. On 8 February 2013, an amendment agreement was signed by the Company and QGX Holdings Ltd. to extend the maturity date of two promissory notes from 22 November 2013 to 31 March 2014 and 31 December 2014, respectively. On 31 December 2014, the maturity date of the two promissory notes was extended to 31 March 2015, with a rate of 8.0% per annum to the maturity date. On 30 June 2015, the maturity date of two promissory notes was further extended to 30 September 2015, with a rate of 8.0% per annum to the maturity date.
- (v) Others represent accrued expenses, payables for staff related costs and other deposits.

All of the other payables and receipts in advance are expected to be settled or recognised in profit or loss within one year or are repayable on demand.

## 16 SENIOR NOTES

	<b>USD'000</b>
At 1 January 2014	594,329
Interest charged during the year	54,827
Interest payable	<u>(53,250)</u>
At 31 December 2014	<u>595,906</u>
At 1 January 2015	595,906
Interest charged during the period ( <i>Note 7(a)</i> )	27,242
Interest payable	<u>(26,625)</u>
At 30 June 2015	<u>596,523</u>

On 29 March 2012, the Company issued guaranteed senior notes in the aggregate principal amount of USD600,000,000 which were listed on the Singapore Exchange Securities Trading Limited. The senior notes bear interest at 8.875% per annum, payable semi-annually in arrears, and will be due in 2017.

The senior notes may be redeemed at the option of the Company upon giving not less than 30 days or no more than 60 days notice to the holders.

The Company has agreed, for the benefit of the holders of the senior notes, to pledge all of the capital stock of Mongolian Coal Corporation Limited owned by the Company and to cause Mongolian Coal Corporation Limited to pledge all of the capital stock of Mongolian Coal Corporation S.a.r.l. owned by Mongolian Coal Corporation Limited. The senior notes are guaranteed by some of the Company's subsidiaries, namely Mongolian Coal Corporation Limited, Mongolian Coal Corporation S.a.r.l., Energy Resources Corporation LLC, Energy Resources LLC, Energy Resources Mining LLC and Transgobi LLC.

The senior notes have been accounted for as a hybrid financial instrument containing both a derivative component and a liability component.

The derivative component was initially recognised at its fair value of USD4,920,000, and the attributable transaction cost of USD107,000 were charged to the profit or loss for the year ended 31 December 2012. The fair value of the derivative component as at 30 June 2015 was nil (31 December 2014: nil) which was presented as derivative financial instruments.

The liability component was initially recognised at amortised cost of USD591,707,000, after taking into account of attributable transaction costs of USD13,213,000.

Fair value of the derivative component was valued by the Directors with the reference to a valuation report issued by an independent business valuer based on the Binomial model.

## **17 DIVIDENDS**

The Board does not recommend the payment of interim dividend in respect of the six months ended 30 June 2015 (six months ended 30 June 2014: nil).

## **EXTRACT OF REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

The following is an extract of the independent review report on the Group's condensed consolidated financial statements for the six months ended 30 June 2015.

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2015 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim financial reporting*.

### **Emphasis of Matter**

Without qualifying our conclusion, we draw your attention to note 2 to the unaudited interim financial report which describes that the Company together with its subsidiaries (the "Group") had net current liabilities of approximately USD175,622,000 as at 30 June 2015 and made a loss of USD79,187,000 for the period then ended, and that consequently for the foreseeable future the Group is dependent upon the financial support from its bankers and shareholders. These facts and circumstances indicate the existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern.

The interim financial report has been prepared on a going concern basis, the validity of which is dependent on the availability of the ongoing financial support from the Group's bankers and shareholders to enable the Group to operate as a going concern and meet its financial liabilities as they fall due for the foreseeable future. The interim financial report does not include any adjustments that would result should the Group be unable to continue to operate as a going concern.

## MANAGEMENT DISCUSSION AND ANALYSIS

Within the Group's principal target market, China, crude steel production decreased by approximately 1.3% during the first half of 2015, compared to the same period in 2014. With steel mills and coke producers reducing their production and rebalancing inventory levels accordingly, the consumption of coking coal decreased by 14.1% compared to the corresponding period of the previous year. Within this decrease, domestic coking coal production declined by 13.5%, and coking coal imports declined by 30.1%.

The price of coking coal remained under pressure amid competitive market conditions, driven by the continued imbalance of global coking coal supply and demand. Recently, it was reported that the quarterly benchmark price for low-volatile HCC for the third quarter of 2015 was settled by Australian producers and Japanese customers at USD93 per tonne under Free-on-Board ("FOB") Australia terms, compared to USD110 per tonne in the second quarter of 2015. According to China Coal Resource ("CCR"), the coking coal price in China's main steel producing area of Tangshan declined from Renminbi ("RMB") 900 per tonne in December 2014 to RMB770 per tonne in August 2015.

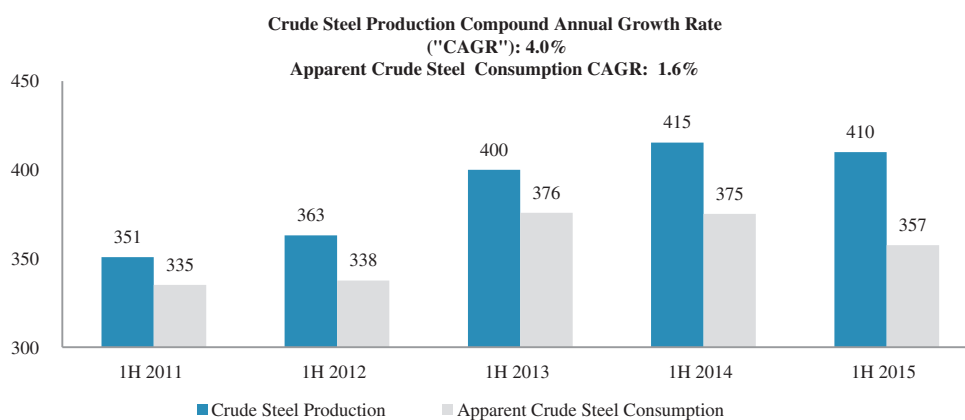
During the period under review, the Group's management continued to focus on strict liquidity management through tight control over operating and capital expenditures, and limiting credit risks. As such, the Group's production output in the first half of 2015 was optimized to support this strategy, and capacity utilized was adjusted downwards based on sales volume projections to ensure continuity of supply to customers under cash prepaid terms.

## INDUSTRY OVERVIEW

### Chinese Steel, Coke and Coking Coal Sectors' Performance

According to the data released by World Steel Association ("WSA"), China produced 410.0 Mt of crude steel in the first half of 2015, down by 1.3% from the same period in 2014. According to CCR, the apparent crude steel consumption in China also decreased by 4.7% to 357.5 Mt in the first half of this year compared to 375.1 Mt recorded in the corresponding period of the previous year.

Figure 1. Chinese crude steel production and apparent consumption volume (Mt):



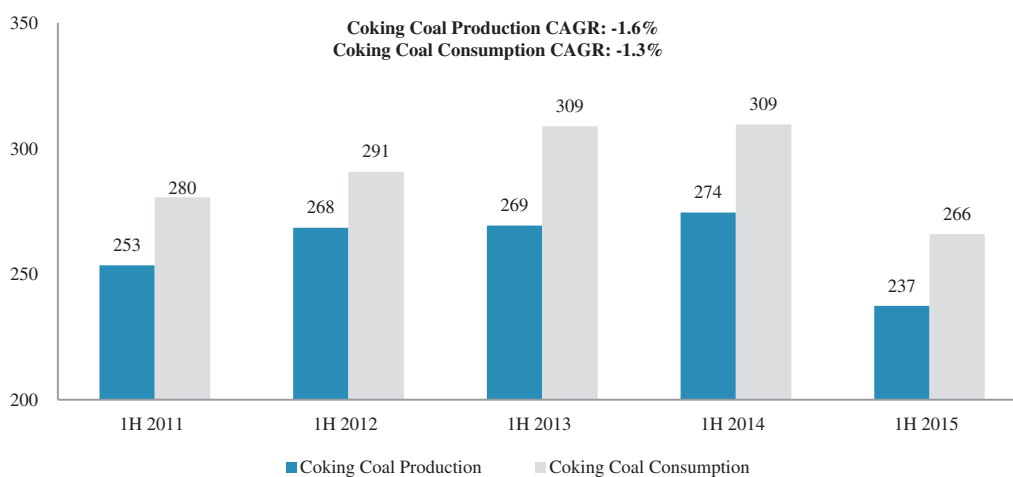
Source: WSA, CCR

With the weakening domestic consumption, Chinese steel products exports reached 52.4 Mt, representing an increase of 27.8% in the first half of 2015 compared to 41.0 Mt recorded in the first half of last year.

Chinese coke production in the first half of 2015 was 226.4 Mt, representing a year-on-year decrease of 3.4%, and Chinese coke consumption in the same period stood at 225.6 Mt which is a 2.6% decrease compared to the consumption in the first half of 2014. However, in response to the cancellation of export tax, Chinese coke exports reached 4.7 Mt in the first half of this year, representing a 21.0% year-on-year increase.

In the first half of 2015, coking coal consumption in China decreased by 14.1% to 265.9 Mt from 309.4 Mt in the same period of last year. Consequently, coking coal production was reduced by 37.1 Mt to 237.3 Mt in the first half of 2015 from 274.4 Mt recorded in the corresponding period in 2014.

Figure 2. Chinese coking coal production and consumption volume (Mt):



Source: CCR

Chinese total coal production dropped by 5.8% to 1.8 billion tonnes in the first half of 2015. Shanxi, the leading coal producing province in China produced 463 Mt, the second largest Inner Mongolia produced 453 Mt, and the third largest Shaanxi produced 210 Mt of raw coal. All three provinces or autonomous regions witnessed declines in their production by 3.2%, 7.3% and 0.6% year-on-year, respectively.

According to National Bureau of Statistics data, fixed-asset investment (“FAI”) in the coal mining and washing industry in China was RMB168.6 billion for the first half of 2015, representing a 12.8% year-on-year decline.

It is expected that the coal industry in China will go through a substantial adjustment in order to rebalance the oversupplied market. As part of this, the Chinese government aims to further tighten overall inspection on coal mines with a focus on safety, and officials will set stricter conditions for coal mines not to exceed approved capacity output.

## Chinese Coking Coal Imports and Mongolian Coal Export Dynamics

According to China General Administration of Customs, Chinese coking coal imports have decreased by 30.1% to 21.6 Mt in the first half of 2015, compared to 30.9 Mt in the corresponding period of last year. Nearly 80% of total coking coal volume imported to China came from Australia and Mongolia, with 10.9 Mt and 6.3 Mt respectively.

The volume of coking coal imported from Mongolia to China declined by 16.8% year-on-year, a moderate decline compared to other major coking coal exporters to China. In comparison, in the same period the volumes of coking coal exported to China from Australia, Canada, Russia and the United States of America (“USA”) decreased by 27.7%, 27.6%, 43.1% and 91.9% respectively. The higher-cost producers from USA were heavily impacted whilst under the weak pricing environment, the Australian, Canadian and Russian producers have been afforded some relief from the depreciation of their respective national currencies against the USD.

*Table 1. Chinese semi-annual coking coal import volume by country of origin (Mt) (Note):*

<b>Countries</b>	<b>1H 2015</b>	<b>1H 2014</b>	<b>Change</b>
Australia	<b>10.9</b>	15.0	-27.7%
Mongolia (Note)	<b>6.3</b>	7.5	-16.8%
Canada	<b>2.2</b>	3.1	-27.6%
Russia	<b>1.8</b>	3.2	-43.1%
USA	<b>0.1</b>	1.4	-91.9%
Others	<b>0.4</b>	0.7	-50.5%
<b>Total</b>	<b>21.6</b>	<b>30.9</b>	<b>-30.1%</b>

*Source: CCR*

*Notes:*

- (i) Imports from Mongolia include raw unprocessed, dry and wet processed coking coal; MMC remains as the only major producer and exporter of washed coking coal in Mongolia.
- (ii) Due to rounding, discrepancy may exist between summary of volumes of individual countries with total volume and year-on-year percentage change.

According to National Statistics Office data, Mongolian coal export to China declined by 26.2% to 6.9 Mt in the first half of 2015 compared to 9.4 Mt export recorded in the same period in 2014.

## OPERATING ENVIRONMENT

### Legal Framework

In the first half of 2015, the following amendments to the Law on Minerals of Mongolia (“**Minerals Law**”) were approved by the Parliament of Mongolia (“**Parliament**”):

- (a) on 23 January 2015, license fees previously expressed in USD was changed to be expressed in MNT. For coal deposits, an annual mining license fee payable by license holder was previously USD5 per hectare and has been changed to MNT7,250 per hectare after this amendment; and
- (b) on 18 February 2015, a concept of a special royalty for mineral deposits of strategic importance was introduced. It provides an option for the GoM either to exercise its right to take an equity interest in such deposits as stipulated under the Minerals Law or to, in lieu of such interest, impose a special royalty of up to 5% in addition to the base and progressive royalties applicable universally to all mining licenses under the Minerals Law.

The Parliament ratified the Economic Partnership Agreement between the governments of Mongolia and Japan on 17 February 2015, which addressed a number of matters in relation to increasing trade between Japan and Mongolia, and seeks to improve the investment framework. In particular, it is agreed that custom duty for coals originating from Mongolia will be removed entirely upon signing such Agreement, which will be beneficial if volumes of coal exported from Mongolia to Japan increase in the future.

On 18 February 2015, the Parliament amended the Law on Implementation of the Law on Prohibition of Exploration and Mining in Headwaters of Rivers, Protected Water Basins Zones and Forested Areas, and provided option for the license holders to continue their operations subject to undertaking a number of obligations in respect of protection and restoration of the environment. In particular, if a license holder wishes to continue its operations, it should submit a request to the Mineral Resources Authority of Mongolia (“**MRAM**”) within three months from the effective date of the amendment (16 March 2015) and enter into an agreement with the Ministry of Environment, Green Development and Tourism of Mongolia, MRAM and the governor of the relevant province. If a mining license holder does not submit such request and enter into the necessary agreement, the mining license will be revoked and there will be no compensation payable to the license holder. This amendment only applies to the mining licenses, and not to exploration licenses. If a mining license holder does not restore the mining area (after the project is completed), the costs for restoring the area shall be payable by the license holder taking into account the profits gained during the mining period. In light of this amendment, the Minerals Law has also been amended to state that a breach of the above mentioned Law on Implementation of the Law on Prohibition of Exploration and Mining in Headwaters of Rivers, Protected Water Basins Zones and Forested Areas and/or the agreement entered into in accordance with such law shall constitute grounds for license revocation.

Parliament adopted a new Law on Debt Management which contains comprehensive framework for a state and local government debt management system on 18 February 2015. The law introduces a number of important definitions concerning government loans and debt-related issues, and imposes certain criteria and procedures on the creation of debts and the issuance of government securities and guarantees, forward-lending of loans, and registering, reporting and monitoring of debts which may be repaid from state or local government budgets. This law allowed the GoM to issue guarantees for both state-owned and privately-owned entities and contains the detailed requirements and procedures for such issuance.

On 14 May 2015, the Parliament amended the Law on Investment and made required change to this law that certain powers vested in other government ministerial level body have been shifted to the Investment Agency. Pursuant to the relevant clauses under the Law on Investment, Energy Resources LLC (“ER”), an indirectly wholly-owned subsidiary of the Company, has applied for the Stabilization Certificate according to the procedures prescribed by this Law. On 13 August 2015, the Stabilization Certificate was issued by the Investment Agency to ER. Effectively, ER now has four main taxes stabilized for the period until 17 April 2033: corporate income tax, customs tax, value added tax and royalty.

The Parliament approved a new Law on Secured Transaction on 2 June 2015, and movable properties and rights can be pledged and registered under this new law. However, the pledge of mining licenses granted in accordance with the Minerals Law shall be regulated by the Minerals Law. This law will become effective from 1 September 2016.

On 9 July 2015, the Parliament approved an amended version of the Law on Value Added Taxes, which will become effective from 1 January 2016. One of the changes is that the revenue threshold for VAT payer registration has increased from MNT10 million to MNT50 million. Moreover, under this amended version, VAT shall be imposed on all types of work and services imported to Mongolia, regardless of whether or not those works and services are performed and rendered within the territory of Mongolia.

On 10 July 2015, the Parliament approved a new Law on Industrialization Support. Under this law, the state aims to support processing industries oriented to export products generating domestic value. However, small and medium entities, entities engaged with the extraction or processing of minerals, as well as entities with foreign investment or have entered into investment agreement with the GoM will not qualify for State support provided within the scope of this new law. This law will become effective from 1 January 2016.

On 3 July 2015, the Parliament approved the Law on Ratification of the C176: Safety and Health in Mine Convention, 1995 of the International Labour Organization. The Company will take all necessary measures to comply with this Convention.

On 19 January 2015, the GoM issued a resolution to increase excise duty for imported diesel from MNT30,000 to MNT265,000 per tonne, and increase excise duty for gasoline with octane rate up to 90 from MNT30,000 to MNT252,000 per tonne and gasoline with octane



rate above 90 from zero to MNT259,000, which are imported through Sukhbaatar, Zamiin Uud, Ereentsav and Altanbulag border ports of Mongolia. Such resolution became effective on 20 January 2015. Furthermore, Government Resolution No. 65 increased the custom duty for imported diesel and gasoline from 1% to 5%, which became effective from 18 February 2015. As Mongolia is entirely reliant upon importation of oil products, the GoM takes action to stabilize fuel prices through adjustment of levies such as excise duty and customs duty.

On 16 March 2015, the GoM amended Resolution No. 193 of 2011 on Requirements, Types, Main Principles and Methodology of the Mineral Ore, Concentrate and Products in accordance with Mongolian National Standard (“MNS”) 6457:2014 Coal Products and Classification. This standard was approved on 29 May 2014 by the National Standardization Council of Mongolia, providing specifications for coals such as processed and non-processed anthracite, semi anthracite, HCC, semisoft coking coal, and other coals (please refer to page 29 of the annual results announcement for the year ended 31 December 2014 made by the Company dated 23 March 2015 for details of the classification standard). With respect to the above mentioned amendment made to Government Resolution No. 193 of 2011, on 22 April 2015, the Head of General Customs Office made changes to the national foreign trade codes used for coal products, which are defined based on the Harmonized Commodity Description and Coding System. The newly defined codes became effective simultaneously from 1 May 2015 as a further amendment to the Government Resolution No. 193 of 2011. Following these changes, on 7 July 2015, the GoM amended its Resolution No. 286 of 2010 and replaced old codes of the processed coal products with the newly defined codes. In this regard, our processed coal products, in particular processed coking, semisoft and non-coking coals will remain to be considered as exported mining final products therefore VAT rate shall remain the same at zero.

On 17 February 2015, the GoM, Geology and Mining Sector Labour Union and representatives of the mining sector employers entered into a collective agreement for 2015 and 2016. Under this agreement, it was stipulated that the industry’s minimum wage for this period shall be double that of the national minimum wage set by the GoM, which is currently equal to MNT192,000 per month. The Company does not expect any impact on its financials due to the entering into of the collective agreement, as its existing internal remuneration policies are in line with this collective agreement.

## **BUSINESS OVERVIEW**

### **Coal Resources and Exploration Activities**

#### *Ukhaa Khudag deposit*

Mining License MV-11952 (“**UHG mining license**”) covering 2,960 hectares across the UHG coal deposit was granted to the Group on 23 January 2007 for a period of 30 years. Subsequent to the grant of the UHG mining license, the Group has prepared two JORC

compliant Coal Resource estimates. The most recent estimate was the JORC (2012) Coal Resource estimate in compliance with the most recent Australian Guidelines for the Estimation and Classification of Coal Resources (2014), with statement date as of 31 December 2014.

In preparing for release of the JORC (2012) Coal Resource estimate, work completed by the Group's geological team including that done in preparation for the previous JORC (2004) Coal Resource estimate as at 30 June 2012 included:

- drilling a total of 191,275 metres (“**m**”) across 1,556 individual boreholes, including 104,369m of HQ-3 (63.1mm core, 96.0mm hole diameter) drilling and 86,906m of 122mm diameter open hole drilling;
- collecting and testing 37,548 individual analytical samples;
- collaborating with Velseis Processing Pty Ltd (“**Velseis**”) to interpret data collected from 71 kilometres (“**km**”) of high resolution 2D seismic in-field measurements, collected by Polaris Seismic International Ltd (“**Polaris**”); and
- large-diameter, bulk-sample drilling with analysis of samples collected conducted at the ALS Group (“**ALS**”) laboratories in Ulaanbaatar.

Data derived from these exploration activities was used to prepare the structural and coal quality models, and subsequently the UHG mining license JORC (2012) Coal Resource estimate as at 31 December 2014. Internal peer audit of this model was conducted by Mr. Gary Ballantine, which confirmed compliance of the Group's work carried out to update the UHG geological model, and thus the JORC (2012) Coal Resource estimate for the UHG mining license area.

Figures reported based upon an in situ density at an as-received moisture basis are summarised in Table 2, and the relevant detailed information required to be presented upon initial release of JORC (2012) Coal Resource estimate was attached as Appendix 1 of the MMC 2014 Annual Report. Based upon mine survey calculation, from 1 January 2015 to 30 June 2015, mine production has depleted the stated Resource by approximately 2 Mt.

During the first half of 2015, only a very small amount of exploration drilling was done within the UHG mining license. For the purpose of supporting revision of the geotechnical recommendations to enable ex-pit overburden dump locations to be moved closer to the pit, a total of 6 boreholes were drilled. In total, 636m of HQ-3 boreholes were drilled in order to better define the boundaries of basement rock on the northern periphery of the UHG deposit. Information gleaned from this exercise supported the hypothesis being investigated, and as a result geotechnical advice has been revised allowing for subsequently shorter haulage of overburden than had been envisaged during Life-of-Mine (“**LOM**”) planning. This revision will have positive impact on operations during the second half of 2015 through 2016.

Table 2: UHG mining license area JORC (2012) Coal Resource by depth and category as at 31 December 2014 (Note):

Total Coal Resource Depth limit from topographic surface	Resource Category (Mt)			Total (M+I)	Total (M+I+I)
	Measured	Indicated	Inferred		
Subcrop to Base Horizon of Weathering Elevation (“BHWE”)	2	3	5	6	10
BHWE to 100m	75	23	17	98	115
From 100m to 200m	95	48	26	143	169
From 200m to 300m	91	64	21	155	176
From 300m to 400m	57	35	16	92	108
Below 400m	<u>40</u>	<u>44</u>	<u>30</u>	<u>84</u>	<u>114</u>
Sub-Total above 300m	263	138	69	402	470
Sub-Total below 300m	<u>97</u>	<u>79</u>	<u>46</u>	<u>176</u>	<u>222</u>
<b>Total</b>	<b><u>360</u></b>	<b><u>217</u></b>	<b><u>115</u></b>	<b><u>578</u></b>	<b><u>692</u></b>
<b>Total (Rounded)</b>	<b><u>360</u></b>	<b><u>220</u></b>	<b><u>120</u></b>	<b><u>580</u></b>	<b><u>690</u></b>

Notes:

- (i) Technical information in the UHG Coal Resource estimation report has been compiled by Mr. Lkhagva-Ochir Said, General Manager for Exploration and Geology, Mongolian Mining Corporation. Mr. Said is a member of the Australasian Institute of Mining and Metallurgy (Member #316005) and has over 7 years of experience relevant to the style and type of coal deposit under consideration and to the activity which is being undertaken to qualify as a Competent Person as defined by the Australasian Code for Reporting of Exploration Results, Minerals Resources and Ore Reserves, The JORC Code (2012 Edition). Mr. Said consents to the inclusion in the release of the matters based on this information in the form and context in which it appears. The estimate of the Coal Resource set out in Table 2 presented in this announcement are considered to be a true reflection of the UHG Coal Resource as at 31 December 2014, and have been carried out in accordance with the principles and guidelines of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. The JORC Code (2012 Edition).
- (ii) Mr. Gary Ballantine is employed by the Group as Executive General Manager for Exploration and Geology. Mr. Ballantine is a member of the Australasian Institute of Mining and Metallurgy (Member #109105) and has over 25 years of experience relevant to the style and type of coal deposit under consideration and to the activity which is being undertaken to qualify as a Competent Person as defined by the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012 Edition).
- (iii) Due to rounding, discrepancy may exist between sub-totals and totals. Rounding rules refer to Clause 25 JORC Code (2012 Edition).

### ***Baruun Naran deposit***

The Baruun Naran (“**BN**”) deposit comprises Mining License 14493A (“**BN mining license**”) of 4,482 hectares area originally obtained through the acquisition of the entire issued share capital of Baruun Naran Limited, formerly known as QGX Coal Limited, on 1 June 2011, and the Tsaikhar Khudag (“**THG**”) deposit comprises Mining License MV-017336 (“**THG mining license**”) of 8,340 hectares area that was granted to the Group on 24 June 2013 subsequent to such acquisition.

Previously, McElroy Bryan Geological Services Pty Ltd. (“**MBGS**”) provided JORC (2004) Coal Resource statements for the BN and THG mining license areas, as at 30 June 2012 and 30 April 2013 respectively. These estimations concluded that the BN mining license contained 210 Mt of Measured and 70 Mt of Indicated Resources, and that the THG mining license contained 55 Mt of Inferred Coal Resources. Both of these estimations assumed 6% in situ moisture content.

During the first half of 2015, the Group’s geological team has produced updated JORC (2012) Coal Resource estimations for the BN and THG mining license areas. This work has incorporated additional exploration data gained from the exploration drilling program conducted in 2014, and has applied the more stringent requirements of the Australian Guidelines for the Estimation and Classification of Coal Resources (2014).

No further drilling was conducted at the BN deposit in the first half of 2015, with the following activities previously completed providing basis for development of the geological models:

- total of 92 and 32 exploration boreholes at BN and THG;
- total of 28,540m drilling at BN, of which 14,780m were HQ-3, 9,640m PQ-3 (83.0mm core, 122.6mm hole diameter) and 4,120m were 122mm diameter open hole;
- total of 9,970m drilling at THG, of which 5,900m were HQ-3, 3,610m PQ-3 and 460m were 122mm open hole;
- total of 8,720 (BN) and 3,824 (THG) coal samples collected and analysed; and
- total of 7.5km of 2D seismic survey captured by Polaris over the BN mining license, analysed by Velseis.

Internal peer review was conducted by Mr. Gary Ballantine, Executive General Manager of Exploration and Geology, whilst external peer review was provided by Mr. Todd Sercombe of GasCoal Pty Ltd confirming compliance of the Group’s work to update the structural and coal quality geological model. Mr. Brett Larkin from Geoscheck Pty Ltd was also engaged for peer review purposes with regard to the geostatistical analysis required to be prepared under the Australian Guidelines for the Estimation and Classification of Coal Resources (2014).

Summary of the updated JORC (2012) Coal Resources for BN and THG mining licenses areas are shown in Table 3 and Table 4. The figures in these tables represent calculation based upon in situ density at an assumed 5% moisture basis.

Table 3. BN mining license area JORC (2012) Coal Resource by depth and category as at 30 June 2015 (Note):

Total Coal Resource Depth limit from topographic surface	Resource Category (Mt)			Total (M+I)	Total (M+I+I)
	Measured	Indicated	Inferred		
Subcrop to BHWE	10	2	1	12	13
BHWE to 100m	42	9	3	51	54
From 100m to 200m	62	11	5	73	78
From 200m to 300m	67	13	7	80	87
From 300m to 400m	70	16	9	86	95
Below 400m	—	—	—	—	—
Sub-Total above 300m	181	35	16	216	232
Sub-Total below 300m	70	16	9	86	95
<b>Total</b>	<b>251</b>	<b>51</b>	<b>25</b>	<b>302</b>	<b>327</b>
<b>Total (Rounded)</b>	<b>250</b>	<b>50</b>	<b>30</b>	<b>300</b>	<b>330</b>

Table 4. THG mining license area JORC (2012) Coal Resource by depth and category as at 30 June 2015 (Note):

Total Coal Resource Depth limit from topographic surface	Resource Category (Mt)			Total (M+I)	Total (M+I+I)
	Measured	Indicated	Inferred		
Subcrop to BHWE	—	—	2	—	2
BHWE to 100m	—	—	14	—	14
From 100m to 200m	—	—	19	—	19
From 200m to 300m	—	—	19	—	19
From 300m to 400m	—	—	18	—	18
Below 400m	—	—	—	—	—
Sub-Total above 300m	—	—	54	—	54
Sub-Total below 300m	—	—	18	—	18
<b>Total</b>	<b>—</b>	<b>—</b>	<b>72</b>	<b>—</b>	<b>72</b>
<b>Total (Rounded)</b>	<b>—</b>	<b>—</b>	<b>70</b>	<b>—</b>	<b>70</b>

Notes:

- (i) Technical information in the BN deposit Coal Resource estimation report has been compiled by Mr. Lkhagva-Ochir Said, General Manager for Exploration and Geology, Mongolian Mining Corporation. Mr. Said is a member of the Australasian Institute of Mining and Metallurgy (Member #316005) and has over 7 years of experience relevant to the style and type of coal deposit under consideration and to the activity

which is being undertaken to qualify as a Competent Person as defined by the Australasian Code for Reporting of Exploration Results, Minerals Resources and Ore Reserves, The JORC Code (2012 Edition). Mr. Said consents to the inclusion in the release of the matters based on this information in the form and context in which it appears. The estimate of the Coal Resource set out in Table 3 and Table 4 presented in this announcement are considered to be a true reflection of the BN deposit Coal Resource as at 30 June 2015, and have been carried out in accordance with the principles and guidelines of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. The JORC Code (2012 Edition).

- (ii) Mr. Gary Ballantine is employed by the Group as Executive General Manager for Exploration and Geology. Mr. Ballantine is a member of the Australasian Institute of Mining and Metallurgy (Member #109105) and has over 25 years of experience relevant to the style and type of coal deposit under consideration and to the activity which is being undertaken to qualify as a Competent Person as defined by the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012 Edition).
- (iii) Due to rounding, discrepancy may exist between sub-totals and totals. Rounding rules refer to Clause 25 JORC Code (2012 Edition).

In comparing the updated BN mining license JORC (2012) Coal Resource estimate with the previous BN mining license JORC (2004) Coal Resource estimate, it should be noted that the new estimate has been made from the mined surface as at 30 June 2015. Prior to this date, approximately 1 Mt of coal had been depleted through mine production from the previously stated Coal Resource.

Including adjustment for the change in assumed in situ moisture and depletion against the previously stated Coal Resource, the total estimated updated Coal Resource within the BN mining license has increased by 45 Mt (16%). This indicates good agreement between the previous and updated Coal Resource estimates. Within the updated Coal Resource increase reported, the Measured component has increased by 43 Mt (21%) whilst the Indicated component has decreased by 22 Mt (30%).

Much of the decrease in the Indicated category is now reported within the Inferred category with 25 Mt having been reported.

In addition to the material increase reported and in alignment with JORC Code (2012) requirements, the maximum expected error was calculated. For the Measured category this value was 6.5% and for Indicated category was 13%.

In comparing the updated THG mining license JORC (2012) Coal Resource estimate with the previous THG mining licence JORC (2004) Coal Resource estimate, there was a change in the Inferred category of 17 Mt (31%). No maximum expected error was calculated, due to insufficient points of observation for a meaningful geostatistical result.

## **Coal Reserves**

The Group most recently updated its LOM plans in collaboration with global mining consultancy RungePincockMinarco Limited (“RPM”) in 2013. This project culminated in statement of JORC (2012) Coal Reserve estimations for both the UHG and BN deposits as at 31 December 2012.

The LOM plans prepared underpinning the updated JORC (2012) Coal Reserve estimates were based on open cut, multi seam, truck and excavator mining methods. Pit optimization software was used to generate a series of nested pit shells corresponding to varying revenue factors, simulating incrementally different economic scenarios as impacted by mining cost or coal price variance.

The pit optimization algorithms used included:

- limiting the depth of pit to 300 m from surface at UHG and 350 m from surface at BN respectively, based on geotechnical recommendations provided by Mr. John Latilla of AMC Consultants Pty Ltd;
- categorization of coal seams with regard to propensity for coking or thermal product based upon recommendations provided by Mr. John Trygstad of Norwest Corporation;
- cost input assumptions derived from historical operating performance at both of the UHG and BN mines; and
- revenue input assumptions derived from a market study of principal coking and thermal coal markets in China completed by Shanxi Fenwei Energy Consulting Co., Ltd.

Practical pit designs were created within the selected optimized pit shells, representative of the stated revenue and cost assumptions of the study. Through application of estimated mining and metallurgical factors, mineable in situ coal within the pit shell was converted to ROM and product coal quantities. From this, mine schedules were sequenced to maximize value derived.

From these LOM plans, the open-cut ROM Coal Reserves for the UHG and BN coal deposits were estimated as at 31 December 2012. Stated quantities reported pursuant to the JORC (2012) Coal Reserve estimate for the UHG deposit are shown in Table 5, these are based on an as-received basis with 5% total moisture. With the most recent Coal Resource update provided for UHG mining license area as at 31 December 2014, sufficient time has not yet been available to prepare updated Reserve estimate. From 1 January 2013 to 30 June 2015, as measured by mine survey, the stated UHG ROM Coal Reserve has been depleted by approximately 16 Mt.

Table 5. UHG mining license area JORC (2012) Coal Reserve estimate as at 31 December 2012 (Note):

ROM Coal Reserve Coal Type	Reserve Category (Mt)		
	Proved	Probable	Total
Coking	155	81	236
Thermal	<u>64</u>	<u>16</u>	<u>80</u>
<b>Total</b>	<b><u>218</u></b>	<b><u>97</u></b>	<b><u>315</u></b>

The JORC (2012) Coal Reserve estimate for the BN deposit is summarised in Table 6, with tonnage estimation based on an as-received basis with 6% total moisture. By mine survey measurement, it is calculated that production activity from 1 January 2013 to 30 June 2015 has depleted the stated BN ROM Coal Reserve by less than 1 Mt, and is considered to impart no material change. With the most recent Coal Resource update provided for BN mining license area as at 30 June 2015, sufficient time has not yet been available to prepare an updated Reserve estimate.

Table 6. BN mining license JORC (2012) Coal Reserve estimate as at 31 December 2012 (Note):

ROM Coal Reserve Coal Type	Reserve Category (Mt)		
	Proved	Probable	Total
Coking	118	22	140
Thermal	<u>23</u>	<u>2</u>	<u>25</u>
<b>Total</b>	<b><u>141</u></b>	<b><u>24</u></b>	<b><u>165</u></b>

Notes:

- (i) The estimate of the Coal Reserves as at 31 December 2012 presented above has been carried out in accordance with the “Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves” (December, 2012). Technical information in the UHG and BN Coal Reserve estimation reports has been compiled by Mr. Greg Eisenmenger, who is a Member of the Australasian Institute of Mining and Metallurgy. He is a full time employee of RPM and has extensive experience in the mining industry, having worked for over 30 years with major mining companies, mining contractors and consultants. During those years he has either managed or contributed significantly to numerous mining studies related to the estimation, assessment, evaluation and economic extraction of coal in Australia, New Zealand, Indonesia, Mozambique and Mongolia. He has sufficient experience which is relevant to the style of mineralization and type of deposit under consideration and to the activity he is undertaking to qualify him as a Competent Person as defined in the 2012 Edition of the JORC Code. Mr. Eisenmenger consents to the inclusion in the release of the matters based on this information in the form and context in which it appears.



- (ii) Due to rounding, discrepancy may exist between sub-totals and totals.
- (iii) The estimate of Coal Reserves as at 31 December 2012 presented above is based upon Coal Resources as estimated at the time and does not take into account the current Coal Resources Estimate as at 31 December 2014 for UHG and 30 June 2015 for BN, nor any changes to any Modifying Factors which may have occurred since the date that Coal Reserves were estimated.

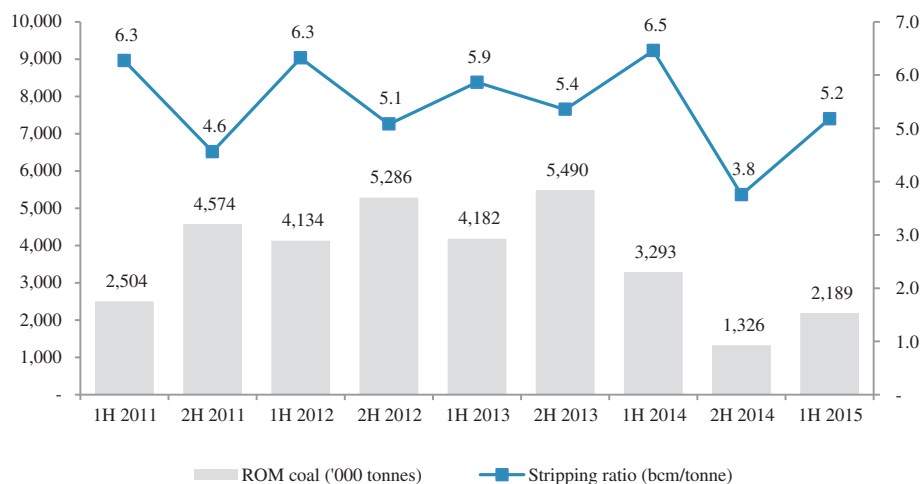
## Production and Transportation

### Coal Mining

The Group mined a total of 2.2 Mt of ROM coal in the first half of 2015, all from UHG mine. To access this coal a total of 11.3 million bank cubic metres (“Mbcm”) of overburden was removed, resulting in a stripping ratio of 5.2 bank cubic metres (“bcm”) of overburden per ROM tonne within the period. Figure 3 displays the Group’s historical semi-annual ROM output for the period from 1 January 2011 to June 30, 2015.

The management focused during the reporting period to ensure that the most efficient sequence of the waste removal to uncover and extract coal was realised. This included careful utilisation of the most cost effective equipment, minimising overburden to be mined with delivery to the nearest dumping locations, and continuous focus of mining supervision and fleet management system dispatchers on ensuring maximum productivity and minimum idle time. Additional research and analysis of geotechnical data completed during the reporting period has resulted in updated recommendations allowing redesign of the ex-pit waste dumps closer to the pit, which will provide basis for even shorter distance and lower cost overburden haulage in the second half of 2015.

Figure 3. The Group’s historical semi-annual ROM coal production volumes (in thousand tonnes) and actual stripping ratio (in bcm per ROM coal tonne):



## Coal Processing

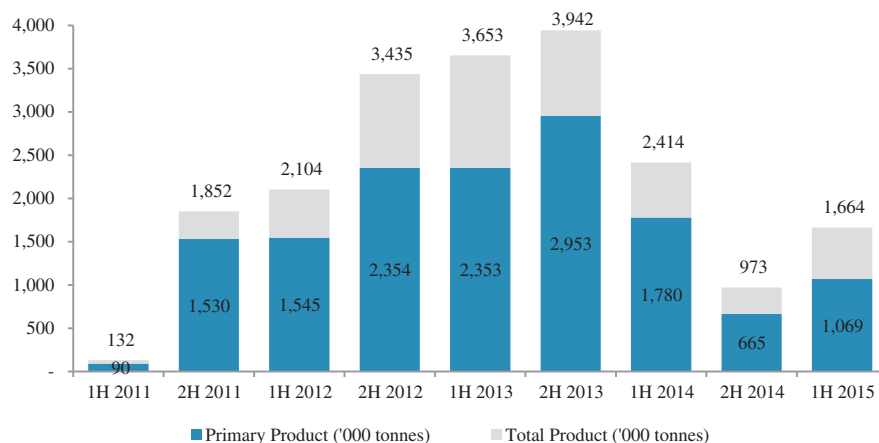
A total of 2.1 Mt of ROM coal was processed by the Group in the first half of 2015, including 38 thousand tonnes (“kt”) for third parties under fee for service contractual arrangements. Resulting from feed of owned ROM coal to the plant, the Group was able to produce 1.1 Mt of HCC primary product (50.6% yield), and 0.6 Mt of thermal coal secondary product (28.2% yield). Figure 4 displays the Group’s historical semi-annual processed coal production volumes for the period from 1 January 2011 to June 30, 2015.

Coal Handling and Preparation Plant (“CHPP”) production scheduling was tailored to the mine output, maximizing the proportion of direct feed possible whilst minimizing the quantity of coal required to be re-handled. Each of the three processing modules was used intermittently as required to provide the required processing capacity as required.

Late in the reporting period, encouraging results were obtained through processing Seam 0B as part of the ROM feed blend to produce HCC to meet customer specifications. Seam 0B had previously not been considered as a potential feed source to produce HCC on account of as modeled non-ideal inherent properties. However, further testing and analysis indicated that there was potential to utilize defined areas of it as a substitute for Seam 0C within the typical ROM feed blend. Scaling up from washability test lab analyses to full scale production trial washing proved successful, with approximately 100 kt of Seam 0B ROM coal processed in blended feed to CHPP achieving equal results in terms of yield and product quality compared with the otherwise normal blend incorporating Seam 0C instead.

Assuming continued success processing Seam 0B in the second half of 2015, utilisation of significant quantities of Seam 0B available at incrementally low stripping ratio will be possible. This should allow for a reduction in the overall stripping ratio, whilst converting ROM coal resources that had previously been determined as a thermal coal into HCC product.

Figure 4. The Group’s historical semi-annual total and primary processed coal production volumes (in thousand tonnes):



### *Transportation and Logistics*

During the first half of 2015, capacity of the Group's long haul transportation operation between the UHG and the Tsagaan Khad ("TKH") coal stockpile and trans-shipping facility adjacent to the Sino-Mongolian border was tailored to match with the production output. The management continued to focus during the reporting period on improving efficiencies within the operation, with positive results achieved in the form of reduction of individual truck cycle time durations by 30.5%, and increase in the average daily trips per individual truck utilised by 35.8%.

### *Occupational Health, Safety and Environment*

Across the operations under management by the Group, approximately 2.6 million man-hours were worked by employees, contractors and sub-contractors during the first half of 2015. During this period, 1 Lost Time Injury ("LTI") was recorded, resulting in an overall Lost Time Injury Frequency Rate ("LTIFR") of 0.4 LTIs per million man-hours worked equivalent.

The reported LTIFR represents the Group's best reported performance in any half or full year of operation thus far, and demonstrates the ongoing commitment within the Group to achieve the overarching goal of Zero Harm. It also compares favourably in comparison to publicly reported mining industry statistics, such as those from the Queensland Government Department of Natural Resources and Mines (3.0, 2013-2014) and the New South Wales Department of Resources and Energy (2.5, 2013-2014).

This performance has been underpinned by the development and implementation of a world class Occupational Health, Safety and Environment ("OHSE") Management System, which during the reporting period was supported by the delivery of 3,173 training sessions to individuals, totalling 6,229 man-hours of OHSE specific training delivered to employees, contractors and visitors.

### **Marketing and Sales**

According to market sources, prices dropped to the lowest levels as seen in many years, and signs of a slowing economy in China put further downward pressure on an ongoing global coking coal supply and demand imbalance. Amid such challenging market environment, the Group pursued a strategy to maintain relationship with its existing customer base, which includes key end-users with long term strategic value, while maintaining prudent practice of liquidity management in sales arrangements.

Notable achievements made towards execution of the strategy included: setting up direct sales and supply agreements with key strategic customers like Baotou Iron and Steel Co., Ltd. ("**Baogang Group**") and China Shenhua Group whilst restructuring sales terms to prepaid arrangements with tight credit control for the majority of the sales agreements. On 3 April 2015, the Group signed a sales agreement with Shenhua Bayannoer Energy Co., Ltd., a subsidiary of China Shenhua Group, under which the Group committed to supply 1.2 Mt

of HCC to China Shenhua Group. Furthermore, on 8 May 2015, the Group signed a long-term cooperation agreement with Baogang Group for supply and sales of coking coal products of the Group, establishing direct relationship with the Baogang Group, which is the largest steel mill in the Inner Mongolia, China.



#### MMC and Baogang Group long term cooperation agreement signing ceremony

*From left to right: From Baogang Group, Ms. Hu Minzhe, Head of Legal Department; Mr. Liu Yi, Vice Chief Engineer; Mr. Yue Jianqun, Assistant to the General Manager; Mr. Zhao Dianqing, Vice Manager; Mr. Li Jingui, Director of the Board; Mr. Zhou Bingli, Chairman; From MMC, Mr. Odjargal Jambaljamts, Chairman; Mr. Oyunbat Lkhagvatsend, Deputy Chief Executive Officer; Mr. Tuvshin Narmandakh, Executive General Manager of Sales and Distribution Department; Mr. Tuvshinbayar Tagarvaa, Executive General Manager of Sales Administration Department; Mr. Javkhlant Enkhbayar, Sales Manager of Sales and Distribution Department; Ms. Nominasuren Gantulga, Senior Associate of Market Research and Sales Support Section.*

Despite the fiercely competitive market situation, through its subsidiary, the Tianjin Zhengcheng Import and Export Trade Co., Ltd. that operates as a joint venture with Risun Mining Co., Ltd in China, the Group continued to pursue its strategy to maintain relationship with its existing end-users that are mostly comprised of steel mills and coke plants located in Hebei, Shandong and the surrounding coastal area in China. As part of this strategy, the Group developed and maintained a product mix of coking coal products produced by the Group with supplementary third party coal products from Chinese domestic origins in order to keep proper balance of efficient cost structure as well as maintain its market share at the end-users product mix for steel and coke production. These third party coals were semi-soft coking coal (“SSCC”), weak caking coal, gas coal and lean coal and bought from different regions of Shanxi and sold to Jianlong Janeboat Steel Co., Ltd, Qiananshi Jiujiang Wire Co., Ltd and Tangshan Dafeng Coking Co., Ltd in Hebei.

With the above mentioned developments in the first half of 2015, the Group is focused to overcome ongoing downtrend of the market with prudent practice of maintaining existing market and laying foundations for long term sustainable operations.

The Group sold a total of 1.0 Mt of coal products in the first half of 2015, out of which 0.7 Mt of HCC originated from its own mines operating in Mongolia, and 0.3 Mt of other types of coal products originated from third parties in China which included 12.2 kt SSCC, 43.2 kt lean coal, 78.2 kt weak caking coal and 133.2 kt gas coal.

The sales volume for HCC that originated from the Group's mines in Mongolia was 748.3 kt, of which 569.7 kt, 79.3 kt and 99.3 kt were sold under DAP GM, FOT and C&F terms respectively. This represents a decrease of 60.7% year-on-year compared to 1.9 Mt HCC sold in the same period of 2014.

## **Transportation Infrastructure**

### ***Cross Border Railway***

In April 2014, the Group together with Mongolian state-owned company Erdenes Tavantolgoi JSC, Tavantolgoi JSC and Lodestar Investment Pte Ltd formed a joint venture named Gashuunsukhait Railway LLC to develop the cross border railway connecting the ports of GS in Mongolia and GM in China ("**Cross Border Railway**") subsequent to the release of GoM Resolution No. 299 adopted in August 2013. In 2014, the comprehensive feasibility study for the Cross Border Railway was completed and approved by the GoM. Subsequent detailed engineering design for the Cross Border Railway base infrastructure is in process of review and approval by the GoM and related authorities.

## **Business Outlook**

Coking coal prices continued to decline during the first half of 2015 and faced significant downward pressure due to persisting oversupply. This weak market environment is expected to continue during the second half of this year, as recently it was reported that quarterly benchmark price for low-volatile HCC for the third quarter of 2015 was settled by Australian producers and Japanese buyers at USD93 per tonne compared to USD110 per tonne under FOB Australia terms in the second quarter of 2015. According to the indexes published by market research firms, the coking coal price in China's main steel producing area of Tangshan declined from RMB900 per tonne (17% VAT included) reported in December 2014 to RMB770 per tonne in August 2015.

The Group will continue to focus on key initiatives to improve its competitive position and establish itself as a leading coking coal producer in the region. The following strategies will be pursued by the management in order to reach its objectives: (i) exploring opportunities for expanding and diversifying its business operations through potential strategic cooperation and joint ventures arrangements; (ii) supporting initiatives to improve transportation infrastructure and capability, in particular railway development, to gain access to the Chinese railway network to reach customers in China and beyond; and (iii) continuing its strong commitment to safety, environment and socially responsible operations in Mongolia.

In line with the Group's development objectives and its vision to build a globally competitive business platform, the Group has participated in the bidding process re-launched in August 2014 by the GoM for the Tavan Tolgoi coalfield development. The Group was able to form and lead a consortium (the "**Consortium**") jointly with China Shenhua Energy Company Limited and Sumitomo Corporation.

The Consortium has submitted its bid proposal on 1 December 2014 and eventually on 23 December 2014 was selected as the winner by the working group established by the GoM. The Group believes that the unique features of the Consortium, creating competitive advantages contributed by each Consortium member, were key to its success in this bidding process. The formal negotiation process started on 5 January 2015. This has involved the GoM submitting a draft Investment Agreement to the Parliament and subsequent communication between the involved authorities regarding relevant terms of the draft Investment Agreement. As at the date of this announcement, the Consortium is still engaged in negotiations with the working group and no definitive agreements have been entered into.

The Group believes that subject to successful closing of negotiations with the GoM together with stable investment environment to be granted under the investment agreement considered, the operational joint ventures proposed to be established with its Consortium partners will provide a “game changing” concept to create one of the leading global players in the coking coal industry with strong competitive position in Asia-Pacific region.

The Company will make further announcement(s) in connection with its conclusion of definitive agreements with the GoM and its Consortium partners as and when required under the Listing Rules or other applicable rules and regulations.

Shareholders and potential investors should note that the Company may or may not enter into any definitive agreements with its Consortium partners, the GoM and/or its designated entities. Even if definitive agreements are entered into, completion and fulfilment of such agreements will be subject to satisfaction of the conditions precedent set out therein. Accordingly, the Company may or may not benefit from the Tavan Tolgoi coalfield development.

## **FINANCIAL REVIEW**

### **Revenue**

First half of 2015 continued to be tough for China’s coking coal market. Prices dropped to lowest levels seen in as many years and signs of slowing economy in China put further pressure on already lengthy global coking coal supply and demand imbalance. The Group continued to focus strictly on controlling operational costs and limiting capital outflow.

The Group’s total sales volume for the six months ended 30 June 2015 reached approximately 1.0 Mt of coal products generating total revenue of USD71.8 million, whilst in the six months ended 30 June 2014 total sales volume was 3.2 Mt of coal products with total revenue of USD192.6 million. For the six months ended 30 June 2015, approximately 0.6 Mt of HCC was sold at DAP GM terms, representing 56.1% of total sales volume which generated USD30.9 million in revenue. Approximately 0.4 Mt of coal products was sold at FOT and C&F terms under inland China sales generating USD40.9 million in revenue. The sales

includes approximately 0.3 Mt of coal products procured from Chinese third party sources which generated USD23.8 million revenue. The lower total revenue compared to corresponding period in 2014 was essentially attributable to continuing further downward pressure on coking coal price due to the oversupplied market, which ultimately led to a lower sales volume of HCC.

The Group's pricing reflected the current deteriorating price trend apparent to all coking coal products in the global market. The ASP for HCC was USD64.1 per tonne for the six months ended 30 June 2015, supported by higher HCC selling prices of inland China sales. The ASP of FOT and C&F term sales were USD77.0 per tonne and USD110.4 per tonne, respectively during the first half of 2015, compared to USD99.1 and USD124.1 in the first half of 2014 respectively. It is worth noting that the ASP of sales under C&F terms is an average price of sold quantity across different locations in China, therefore year-on-year comparison may not depict the true trend as selling quantity and locations will differ each year. The ASP of sales under DAP GM terms was USD54.2 per tonne in the first half of 2015 which was approximately 25.4% lower compared to USD72.7 per tonne in the first half of 2014.

For the six months ended 30 June 2015, the Group derived more than 10.0% of its revenue from four customers, with the purchase amounts of approximately USD26.1 million, USD15.4 million, USD10.7 million and USD7.5 million, respectively. In the first half of 2014, the Group derived more than 10.0% of its revenue from three customers, with the purchase amounts of approximately USD72.3 million, USD22.9 million, and USD20.9 million, respectively.

### **Cost of Revenue**

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

During the first half of 2015, the total cost of revenue was USD97.1 million, compared to USD172.2 million during the first half of 2014. The cost of revenue of self-produced coal was reduced by 61.5% from USD166.8 million to USD64.3 million as a result of lower sales volume and continuous effort undertaken by the management of the Company to increase efficiency and reduce costs.

The cost of revenue of procured coal in the first half of 2015 consisted of USD23.4 million cost relating to trading of coal procured from Chinese third party sources, which generated revenue of USD23.8 million and USD3.4 million cost relating to HCC procured from Mongolia in 2014.

As at 30 June 2015, USD6.1 million inventory provision was booked due to continuous weakening prices of coal products. The provision was made based on the assessment of the net realizable value of coal inventories.

Table 7. Total and individual costs of revenue and unit costs of revenue of self-produced coal:

	<b>Six months ended 30 June</b>	
	<b>2015</b>	<b>2014</b>
	<i>(USD'000)</i>	<i>(USD'000)</i>
<b>Cost of revenue</b>	<b>64,253</b>	166,814
<b>Idling costs</b>	<b>19,057</b>	—
<b>Cost of revenue excluding idling costs</b>	<b>45,196</b>	166,814
<b>Mining cost</b>	<b>20,169</b>	70,342
Variable cost	<b>9,242</b>	38,832
Fixed cost	<b>9,688</b>	26,227
Depreciation and amortization	<b>1,239</b>	5,283
<b>Processing cost</b>	<b>7,783</b>	19,349
Variable cost	<b>3,097</b>	7,798
Fixed cost	<b>1,815</b>	2,554
Depreciation and amortization	<b>2,871</b>	8,997
<b>Handling cost</b>	<b>697</b>	4,607
<b>Transportation cost</b>	<b>8,748</b>	45,256
<b>Logistics cost</b>	<b>1,598</b>	7,175
Variable cost	<b>908</b>	2,640
Fixed cost	<b>640</b>	3,599
Depreciation and amortization	<b>50</b>	936
<b>Site administration cost</b>	<b>3,552</b>	8,054
<b>Transportation and stockpile loss/(gain)</b>	<b>(733)</b>	(1,279)
<b>Royalties and fees</b>	<b>3,382</b>	13,310
Royalty	<b>2,168</b>	8,606
Air pollution fee	<b>675</b>	2,005
Customs fee	<b>539</b>	2,699



In accordance with the Group's policy to conserve cash outflow during the current state of the market when ASP is trending lower, it made tactical sense for the Group to temporarily suspend operations at certain times during the period under review for conservation and efficiency purposes. In relation to this, idling costs arose during certain periods when production was held at a limited level, which incurred associated costs of USD19.1 million, including depreciation and amortization of USD6.1 million.

The mining cost consists of costs associated with overburden and topsoil removal and ROM coal extraction, including the costs related to mining staff and equipment, together with base and performance fees paid to the mining contractor, blasting contractor fees, and costs paid to fuel suppliers. For the six months ended 30 June 2015, the Group's mining costs were approximately USD20.2 million (first half of 2014: USD70.3 million). Mining unit cost was USD14.7 per ROM tonne for the six months ended 30 June 2015, compared to USD19.8 in the first half of 2014, representing a decrease of 25.8%.

*Table 8. Total unit mining cost per ROM tonne:*

	<b>Six months ended 30 June</b>	
	<b>2015</b>	2014
	<i>(USD/ROM tonne)</i>	<i>(USD/ROM tonne)</i>
<b>Mining cost</b>	<b>14.7</b>	19.8
Blasting	<b>1.3</b>	1.4
Plant cost	<b>3.3</b>	6.4
Fuel	<b>2.1</b>	3.1
National staff cost	<b>1.4</b>	1.6
Expatriate staff cost	<b>0.6</b>	0.6
Contractor fee	<b>5.0</b>	5.0
Ancillary and support cost	<b>0.1</b>	0.2
Depreciation and amortization	<b>0.9</b>	1.5

*Note: The above mining cost table does not include idling cost*

The Group identified components of the mine in accordance with the mine plan, and accounting of mining unit costs is based on the strip ratio applicable to each component of the mine. Average accounting strip ratio for components mined during the six months ended 30 June 2015 was 2.6 bcm per tonne, compared to 2.9 bcm per tonne for the six months ended 30 June 2014. The mining cost is not only recorded in the income statement, but also the costs of pre-stripped overburden, which is associated with the coal to be mined, processed, transported and sold in the future, in excess of the average strip ratio, which is capitalized in the balance sheet as mining structure.

The processing cost primarily includes costs associated with operations of CHPP including power and water costs. During the six months ended 30 June 2015, the Group's processing

cost was approximately USD7.8 million (first half of 2014: USD19.4 million), of which approximately USD2.9 million is related to the depreciation and amortization of the CHPP, USD1.6 million was incurred in the UHG Power Plant for power generation and distribution, and USD0.5 million was incurred in the UHG Water Supply Facility for water extraction and distribution related to the washed coal sold during the period.

Unit processing cost calculated per ROM coal in-feed tonne increased from USD5.4 per ROM tonne in the first half of 2014 to USD5.7 per ROM tonne in the first half of 2015, representing an increase of 5.6%. The increase was mainly attributable to the lower utilisation of CHPP module capacity.

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

	<b>Six months ended 30 June</b>			
	<b>2015</b>	2014	<b>2015</b>	2014
	<i>(USD'000)</i>	<i>(USD'000)</i>	<i>(USD/ ROM tonne)</i>	<i>(USD/ ROM tonne)</i>
<b>Total</b>	<b>7,783</b>	19,349	<b>5.7</b>	5.4
Consumables	<b>386</b>	1,266	<b>0.3</b>	0.4
Maintenance and spares	<b>587</b>	1,989	<b>0.4</b>	0.6
Power	<b>1,631</b>	3,396	<b>1.2</b>	1.0
Water	<b>493</b>	1,147	<b>0.4</b>	0.3
Staff	<b>1,190</b>	1,809	<b>0.8</b>	0.4
Ancillary and support	<b>625</b>	745	<b>0.5</b>	0.2
Depreciation and amortisation	<b>2,871</b>	8,997	<b>2.1</b>	2.5

*Note: The above total processing cost table does not include idling cost*

The handling cost is related to feeding ROM coal from ROM coal stockpiles to the CHPP, and also the removal of course reject (primarily rock and sediment separated from coal) after coal processing. During the six months ended 30 June 2015, the Group's handling cost was approximately USD0.7 million (first half of 2014: USD4.6 million). Unit handling cost decreased by USD0.5 or 33.3% from USD1.5 per tonne in the first half of 2014 to USD1.0 per tonne in the first half of 2015. The decrease was mainly attributable to cost savings arising from lower fuel prices.

Transportation costs include costs related to the transportation of coal products from UHG to TKH, and the transportation of coal products from TKH to GM, including fees paid to third party transportation contractors. During the six months ended 30 June 2015, the Group's transportation costs, excluding idling cost, were USD8.7 million (first half of 2014: USD45.3 million). On a unit cost basis, the Group managed to decrease its overall transportation costs in the UHG-GM section by USD2.0 per tonne or 13.7% from USD14.6 per tonne in the first half of 2014 to USD12.6 per tonne in the first half of 2015. The transportation cost in the long haul section (UHG-TKH) was maintained at a similar level

from USD6.7 per tonne in the first half of 2014 to USD6.6 per tonne in the first half of 2015. Long-haul transportation costs were reduced by savings on reduction of variable costs and lower fuel prices. However, these were offset by higher unit fixed costs due to lower transportation volume. For the short-haul (TKH-GM) section, where the Group utilised fleet from third party contractors, the Group's transportation costs were reduced by 24.1% from USD7.9 per tonne in the first half of 2014 to USD6.0 per tonne in the first half of 2015 as a result of effective negotiations on haulage fees with the contractors.

The logistics cost is mainly related to costs associated with operating product stockpiles at UHG and TKH. For the six months ended 30 June 2015, the Group's logistics cost was approximately USD1.6 million (first half of 2014: USD7.2 million). The reduction in logistics costs is attributable to lower sales volume of coal products.

The site administration cost is primarily related to the site support facilities such as the airstrip operations, and also overall supervision and joint management of the Group's mining, processing, transportation and logistics operations. For the six months ended 30 June 2015, the Group's site administration cost was approximately USD3.6 million, compared to USD8.1 million in the first half of 2014, representing a decrease of 55.9%.

For the six months ended 30 June 2015, the Group recorded a total transportation gain of around USD4,000, compared to a loss of USD1.5 million in the first half of 2014. For the six months ended 30 June 2015, the Group recorded unrealized inventory gain of USD0.7 million for ROM coal and washed coal product stockpiles compared to unrealised gain of USD2.8 million recorded in the first half of 2014. The inventory losses or gains are assessed based on periodic survey measurements of the Group's ROM coal stockpile inventories at the UHG and BN mines, and product coal stockpile inventories at UHG and TKH. Survey of coal quantity is a measurement of volume, and as for every bulk commodity, the conversion to tonnage requires the application of density assumption, which involves natural variance. Subsequently, the measurement of stockpile quantities is an estimation in which errors are inherent. Therefore, variations within 5% are tolerated, and any tonnages above/below this limit are recorded as stockpile gain/loss. The management expects that by maintaining lower levels of inventory and improving overall inventory management, the Company will be in a position to keep inventory losses under control.

Governmental royalties and fees are related to royalties, air pollution fees and custom fees paid according to the applicable laws and regulations in Mongolia. The progressive royalty rate is applied in the range of 5-8% for processed coal products and 5-10% for raw coal products based on monthly reference price determined by the Ministry of Mining of Mongolia. The Group's effective royalty rate for the six months ended 30 June 2015 was approximately 5.5% for coal exported from Mongolia based on customs clearance documentation (first half of 2014: 5.1%).

### **Gross Loss/Profit and Gross Loss/Profit Margin**

The Group's gross loss for the six months ended 30 June 2015 was approximately USD25.3 million, compared to the gross profit of approximately USD20.5 million recorded for the six

months ended 30 June 2014. The decrease in gross profit was largely driven by further downward pressure on ASP of coking coal products due to the oversupplied state of the market, lower sales volume, idling costs incurred during the periods of limited production and inventory provision.

### **Selling and Distribution Costs**

The Group's selling and distribution costs of USD5.5 million for the six months ended 30 June 2015 (30 June 2014: USD25.0 million) are associated with the inland China market penetration strategy and includes expenses relating to fees and charges incurred for importing coal into China, logistics, transportation, governmental fees and charges and fixed agent fees. The selling and distribution cost is notably lower compared to first half of 2014 due to lower sales volume.

### **General and Administrative Expenses**

The Group's general and administrative expenses relate primarily to head office staff costs, share option expenses, allowance for doubtful debts, consultancy and professional fees, depreciation and amortisation of office equipment and other expenses. For the six months ended 30 June 2015, the Group's general and administrative expenses decreased by approximately USD4.3 million or 26.6% from USD16.3 million for the six months ended 30 June 2014 to approximately USD12.0 million for the six months ended 30 June 2015.

### **Net Finance Costs**

Net finance costs for the six months ended 30 June 2015 was approximately USD42.9 million (30 June 2014: USD45.8 million). Net finance costs for the six months ended 30 June 2015 comprised of (i) interest expense and other credit facilities related expenses, and (ii) USD4.9 million foreign exchange loss due to depreciating MNT against the USD.

### **Income Tax Expenses**

The Group did not have income tax expense for the six months ended 30 June 2015 due to the loss incurred during the period, but had income tax credit of USD6.7 million due to the recognition of deferred tax asset. The Group's income tax credit for the six months ended 30 June 2014 was approximately USD1.6 million.

### **Loss/Profit for the Period**

As a result of the costs listed above, losses attributable to equity shareholders of the Company for the six months ended 30 June 2015 amounted to approximately USD79.1 million (30 June 2014: loss of USD28.0 million). Major contributing factor of the Group's net loss position is decrease of ASP and sales volume of coking coal products due to challenging market conditions in China, as coking coal price continued to be affected by global supply and demand imbalances.

## Impairment

In accordance with IAS 36 Impairment of Assets, entity shall assess at the end of each reporting period whether the assets' carrying value are no more than their recoverable amount. For the year ended 31 December 2014, the Group recognized USD190 million impairment loss on non-financial assets with reference to an independent valuation report. During the first half of 2015, the management of the Group has closely monitored the state of the market and believes there is no indication of significant variance of the key assumptions used in the estimation made as at 31 December 2014. Therefore, no further impairment provision has been recorded in respect of the Group's non-financial assets as of 30 June 2015.

## Liquidity and Capital Resources

For the six months ended 30 June 2015, the Company's cash needs had been primarily related to working capital requirements and debt repayments.

The Company's cash resources were funded by proceeds of approximately Hong Kong Dollar ("HKD") 1,556 million from rights shares issued on 29 December 2014 and revenue generated from sales of coal products.

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

Table 10. Combined cash flows:

	For the six months ended 30 June	
	2015 USD'000	2014 USD'000
Net cash used in operating activities	(55,170)	(29,125)
Net cash (used in)/generated from investing activities	(39,230)	49,422
Net cash used in financing activities	(98,500)	(29,113)
Net decrease in cash and cash equivalents	(192,900)	(8,816)
Cash and cash equivalents at beginning of the period	202,856	26,535
Effect of foreign exchange rate changes	(43)	(196)
Time deposits with original maturity over three months	60,000	50,000
Cash and cash equivalents at end of the period	69,913	67,523

Note: USD39.2 million used in investing activities comprises of USD0.4 million incurred for acquisition of property, plant and equipment and construction in progress, USD34.6 million incurred for payments for deferred stripping activity, USD10.0 million for placement of term deposit and USD4.7 million generated from interest income and USD1.0 million generated from disposal of property, plant and equipment.

The gearing ratio (calculated as total bank and other borrowings divided by total assets) of the Company as at 30 June 2015 was 54.4% (31 December 2014: 51.9% after considering provision for impairment loss on non-financial assets). All borrowings are in USD. Cash and cash equivalents are held in MNT, USD, RMB, Euro and HKD. The Company's policy is to regularly monitor current and expected liquidity requirements and compliance with debt covenants to ensure that the Company maintains sufficient reserves of cash to meet its liquidity requirements in the short and long term.

### **Use of Proceeds from the Rights Issue of the Company**

On 29 December 2014, the Company issued 5,557,554,750 rights shares to qualifying shareholders by way of rights issue at the subscription price of HKD0.28 per rights share on the basis of three rights shares for every two existing shares held by qualifying shareholders whose names appeared on the register of members of the Company on 2 December 2014. Approximately HKD1,556 million was raised from the issuance of the rights shares, net proceeds of which after deducting associated transaction costs was HKD1,516 million or approximately USD195.5 million.

As at 30 June 2015, the Company had used the proceeds from the rights issue as follows:

- approximately USD107.9 million for repayment of existing indebtedness and related interest payments; and
- approximately USD27.6 million for general working capital needs.

### **Indebtedness**

As of 30 June 2015, the Company had USD813.7 million in outstanding short-term and long-term borrowings, including indebtedness incurred under (i) USD600 million senior notes ("**Senior Notes**"), (ii) USD150 million BNP and ICBC Facility, (iii) USD180 million EBRD, FMO and DEG Loan, (iv) USD40 million revolving credit line from Trade and Development Bank of Mongolia, and (v) USD10 million short term loan from Golomt Bank of Mongolia.

The Senior Notes bear a fixed interest rate of 8.875% per annum payable semi-annually. The Senior Notes will mature in March 2017, unless earlier redeemed. As of 30 June 2015, the outstanding principal amount was USD600 million. Upon the sale, transfer, conveyance or other disposition (other than by way of merger or consolidation) in one or a series of related transactions of all or substantially all of the properties or assets of the Company to any person other than one or more of the beneficial owners of less than 30% of the total voting power of the Company, the Company must make an offer to repurchase all outstanding Senior Notes at a purchase price equal to 101% of their principal amount plus accrued and unpaid interest, if any, to (but not including) the date of repurchase.

On 5 March 2014, the Company as a borrower entered into the BNP and ICBC Facility Agreement for a coal pre-export loan facility of USD150 million. The loan bears an interest rate of LIBOR plus 6.00% per annum, and is repayable in 10 quarterly installments starting from September 2014 and ending in December 2016. As of 30 June 2015, the outstanding principal amount of the BNP and ICBC Facility was USD108 million. Under the BNP and ICBC Facility, the Company shall not issue any shares if such issue results in (i) the creation of a new share class of the issued share capital of the Company, and (ii) a change of control of the Company where the controlling shareholder of the Company ceases to beneficially hold (directly or indirectly) at least 30% of the total issued share capital of the Company.

The EBRD, FMO and DEG Loan bears interest on a semi-annual basis at the rate of six-month LIBOR plus 3.75%-4.25% per annum. The USD120 million principal amount of the loan is repayable in 11 semi-annual installments ending on 15 May 2016, and the USD60 million principal amount of the loan is repayable in two equal installments on 15 May 2015 and 15 May 2016, respectively. As at 30 June 2015, the outstanding principal amount was USD62.7 million. Under the EBRD, FMO and DEG Loan, the controlling shareholder of the Company may not cease at any time to own directly or indirectly more shares of the Company than any other shareholder, or at least 30% plus one share of the issued and outstanding shares of the Company, and the Company may not cease to be directly majority owned by entities domiciled in Mongolia.

The loan granted by Trade and Development Bank of Mongolia is a revolving credit facility maturing on 20 March 2016. The loan initially bore interest of 10% per annum, which was subsequently changed to 11.2% per annum from March 2015. As of 30 June 2015, the outstanding principal amount was USD40 million.

On 23 March 2015, the Group obtained a short term loan of USD10 million maturing in January 2016 from Golomt Bank of Mongolia. Such loan bears interest of 8.80% per annum. As of 30 June 2015, the outstanding principal amount was USD10 million.

### **Credit Risk**

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

For the six months ended 30 June 2015, the Group had approximately USD30.9 million in trade receivables, USD116.6 million in other receivables and USD10.1 million for allowance of doubtful debts. For the year ended 31 December 2014, the Group had USD37.0 million in trade receivables and USD125.4 million in other receivables, as well as USD10.1 million for allowance of doubtful debts.

According to the Group's internal credit policy (the "**Credit Policy**"), the Company holds quarterly Credit Committee meetings to review, assess and evaluate the Company's overall credit quality and the recoverable amount of each individual trade credit based on quantitative and qualitative analysis. The purpose of the Credit Policy is to set limits for and monitor the unsecured credit provided to customers at an aggregated Group level and to single customer, and the maximum contractual term for unsecured limit. The management continues to monitor, on an ongoing basis, the exposure, including but not limited to the current ability to pay, and takes into account information specific to the customer and pertaining to the economic environment in which the customer operates on an ongoing basis.

With regard to other receivables of USD116.6 million, this amount is mainly related to USD45.4 million VAT and other tax receivables, USD42.9 million from the GoM for railway project related reimbursement and other deposits and prepayments. For the VAT receivables, based on the Tax Authority inspection and approval of the VAT tax refund, the Group offset USD1.0 million against its other tax payments during the first half of 2015. As at 30 June 2015, the Group had USD14.9 million VAT receivables that are approved by the Tax Authority and can be used to offset against taxes payments, payments to suppliers or to be refunded by cash. The remaining amounts are deposits, advances, prepayments and other receivables in the ordinary course of business. The management believes that there is no issue in the collectability of such receivables.

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

### **Foreign Exchange Risk**

During the six months ended 30 June 2015 and 2014, 99.7% and 100% of the revenue and 50.4% and 58.8% of the purchases in each respective period were denominated in currencies other than MNT, the functional currency of the Group's Mongolian entities.

For the six months ended 30 June 2015, 98.5% and 1.2% of the revenues were denominated in RMB and USD, respectively, with the remaining revenue denominated in MNT. For the six months ended 30 June 2014, 22.1% of the revenues were denominated in USD, with the remaining revenue denominated in RMB.

For the six months ended 30 June 2015, 99.0% and 56.6% of the finance costs and operating expenditures, respectively, were denominated in USD; while 8.6% of the operating expenditures were denominated in RMB; 0.6% of the operating expenditures were denominated in currencies other than the USD, RMB and MNT; and the remainder was denominated in MNT.

For the six months ended 30 June 2014, approximately 99.2%, 2.1% and 6.5% of the finance costs, operating expenditures and capital expenditures, respectively, were denominated in USD; while 0.1% and 30.7% of the finance costs and operating expenditures, respectively, were denominated in RMB; and the remainder was denominated in MNT.



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

Cash and cash equivalents denominated in a currency other than the functional currency of the entity to which they relate as at 30 June 2015 and 31 December 2014 amounted to USD62.8 million and USD245.8 million, respectively. Total borrowings denominated in a currency other than the functional currency of the entity to which they relate as at 30 June 2015 and 31 December 2014 amounted to USD112.7 million and USD143.6 million, respectively.

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

### **Pledge of Assets of the Group**

As at 30 June 2015, the Group pledged current accounts held with Trade and Development Bank of Mongolia, Khan Bank of Mongolia, Golomt Bank of Mongolia and XacBank of Mongolia, its Debt Reserve Account held with BNP Paribas London; Collection and Cash Collateral accounts held with BNP Paribas; cooperation contract with Inner Mongolia Qinghua Group of China; coal sales contracts with Inner Mongolia Risun Coal Industry Co., Ltd, Shenhua Bayannaer Energy Co., Ltd and Inner Mongolia Qinghua Group of China; coal mining agreement with Leighton LLC; 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 water facilities and certain coal stockpiles for bank borrowings.

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 million Senior Notes.

ER pledged its 4,207,500 common shares, being 16.46% common shares held by it in International Medical Centre LLC ("IMC") to secure loan repayment obligation of IMC in proportion to its equity interest in IMC.

The total amount of indebtedness covered by above pledges is USD763.7 million as at 30 June 2015.

## **Contingent Liabilities**

As at 30 June 2015, the Company has contingent liability in respect of the consideration adjustments for the acquisition of BN mine pursuant to the share purchase agreement (the “**Share Purchase Agreement**”) entered into by the Company and its subsidiary Mongolian Coal Corporation Limited with Quincunx (BVI) Ltd and Kerry Mining (Mongolia) Limited (“**KMM**”) on 31 May 2011 in relation to the acquisition of the entire share capital of QGX Coal Limited (the “**Acquisition**”), which may arise from the royalty provision. Under the royalty provision, an additional LOM payment of USD6 per tonne may be payable in the event that the actual amount of coal extracted from the BN mine exceeds a specified semi-annual production target fixed on the date of the determination of the total reserves in each semi-annual period after 1 June 2011 commencing on 1 January and ending on 30 June and commencing on 1 July and ending on 31 December.

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

## **Financial Instruments**

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

Under the Share Option Scheme, the Company granted three batches of Share Options to its director and employees. On 12 October 2011, the Company granted 3,000,000 and 32,200,000 Share Options to a director and employees respectively, at the exercise price of HKD6.66 (which was adjusted to HKD4.53 due to rights issue in December 2014). On 28 November 2012, the Company granted another 5,000,000 and 17,750,000 Share Options to a director and employees respectively, at the exercise price of HKD3.92 (which was adjusted to HKD2.67 due to rights issue in December 2014). On 10 June 2015, the Company granted another 60,000,000 and 94,750,000 Share Options to a director and employees respectively, at the exercise price of HKD0.445.

The fair value of services received in return for Share Options granted is measured with reference to the fair value of Share Options granted. For the six months ended 30 June 2015, USD1.9 million was recognised in administrative expenses and capital reserves in relation to the equity-settled share-based transactions.

The USD600 million Senior Notes have been accounted for as a hybrid financial instrument containing both a derivative component and a liability component. The derivative component was initially recognised at its fair value of USD4.9 million, and the attributable transactions costs of USD0.1 million were charged to the profit or loss for the year ended 31 December 2012.

The fair value of the derivative component of the Senior Notes as at 30 June 2015 was nil. The liability component was initially recognised at an amortised cost of USD591.7 million after taking into account USD13.2 million as attributable costs.

### Capital Commitments and Capital Expenditures

As at 30 June 2015, the Group had USD0.7 million of contracted for capital commitments (as at 31 December 2014: USD0.6 million) and had no authorised but not contracted for capital commitments (as at 31 December 2014: nil).

*Table 11. The Group's historical capital expenditure for the periods indicated:*

	<b>Six months ended 30 June 2015 USD'000</b>	Six months ended 30 June 2014 USD'000
CHPP	—	3,264
Water supply facility	<b>6</b>	4,506
Trucks and equipment	—	314
Others	<u>—</u>	<u>1,213</u>
<b>Total</b>	<b><u>6</u></b>	<b><u>9,297</u></b>

## **Operating Lease Commitments**

As at 30 June 2015, the Company had contracted obligations consisting of operating leases which totalled approximately USD2.3 million due within one year. Lease terms range from one to five years, with fixed rentals.

## **Significant Investments Held**

As at 30 June 2015, the Company did not hold any significant investments. Save as disclosed in this announcement, the Company has no future plans for material investment or capital assets in the coming year.

## **Material Acquisitions and Disposals of Subsidiaries and Associated Companies**

For the six months ended 30 June 2015, the Company did not have any material acquisitions and disposals of subsidiaries and associated companies.

## **Other and Subsequent Events**

There have been no post balance sheet events subsequent to 30 June 2015 which require adjustment to or disclosure in this announcement.

## **Employees**

As at 30 June 2015, the number of employees of the Group was 1,897, compared with 2,128 employees as at 30 June 2014.

The Group's employees are remunerated with reference to the individual performance, experience, qualification and the prevailing salary trends in the local market, which is subject to review from time to time. With reference to the Group's financial and operational performance, employees may also enjoy other benefits such as discretionary bonus and Share Options pursuant to the Company's Share Option Scheme.

For the six months ended 30 June 2015, total amount of staff costs was USD17.3 million, compared to USD18.0 million for the six months ended 30 June 2014.

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

Training and development programs shall be designed for the interest and welfare of the Company and employees. An employee who has completed his/her training is expected to put the knowledge into practice, and share the newly gained experience with coworkers. The immediate management shall be responsible for the support and supervision of the process.

During the six months ended 30 June 2015, the Company focused on internally sourced trainings rather than trainings provided by external parties. As at 30 June 2015, a total of 214 employees attended different professional trainings, out of which 96 employees attended mining heavy equipment operator training, 91 employees attended mine maintenance training and 27 employees attended professional development training.

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

For the six months ended 30 June 2015, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

## **DIVIDEND**

The Board does not recommend the payment of dividend in respect of the six months ended 30 June 2015 (dividend for the six months ended 30 June 2014: nil).

## **MODEL CODE FOR SECURITIES TRANSACTIONS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules. Specific enquiry has been made to all the Directors and all the Directors have confirmed that they have complied with the Model Code throughout the six months ended 30 June 2015.

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

## **CORPORATE GOVERNANCE**

The Company has adopted the code provisions set out in the Corporate Governance Code (the "**CG Code**") as contained in Appendix 14 to the Listing Rules as its code of corporate governance. CG Code provision E.1.2 stipulates that the chairman of the board should attend the annual general meeting of the Company. Mr. Odjargal Jambaljamts, Chairman of the Board, appointed Mr. Chan Tze Ching, Ignatius, independent non-executive Director, to attend and answer questions on his behalf at the 2015 annual general meeting of the Company held on 29 May 2015 (the "**2015 AGM**"), as Mr. Odjargal Jambaljamts was unable to attend the 2015 AGM due to his engagement in discussions on the Tavan Tolgoi coalfield development with related parties. Save as disclosed above, the Company has complied with all other applicable code provisions as set out in the CG Code.

## **REVIEW BY AUDIT COMMITTEE**

The Audit Committee of the Company currently comprises one non-executive Director, Mr. Gankhuyag Adilbish, and three independent non-executive Directors, namely Mr. Chan Tze Ching, Ignatius, Mr. Unenbat Jigjid, and Mr. Ochirbat Punsalmaa. Mr. Chan Tze Ching, Ignatius is the chairman of the Audit Committee.

The Audit Committee has reviewed the interim results of the Company for the six months ended 30 June 2015.

**PUBLICATION OF THE 2015 UNAUDITED CONSOLIDATED INTERIM RESULTS AND 2015 INTERIM REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY**

This interim results announcement is published on the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company's website ([www.mmc.mn](http://www.mmc.mn)), and the 2015 Interim Report containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and published on the respective websites of the Stock Exchange and the Company in due course.

For and On Behalf of the Board  
**Mongolian Mining Corporation**  
**Odjargal Jambaljamts**  
*Chairman*

Hong Kong, 28 August 2015

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