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MONGOLIAN MINING CORPORATION

(In Provisional Liquidation)

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 975)

CONTINUING CONNECTED TRANSACTIONS

On 28 December 2016, the Group entered into the following agreements:

- (i) Domestic Transportation of Fuel, Site Storage and Fueling Services Agreement between NIC and the Group, whereby NIC agreed to provide fuel transportation, site storage and fueling services to the Group for a period starting from 1 January 2017 until 31 December 2019, for a total consideration of up to MNT36,000,096,000 (equivalent to approximately USD14,475,426);
- (ii) Service Agreement between USS and the Group, whereby USS agreed to provide office and camp supporting services to the Group for a period starting from 1 January 2017 until 31 December 2019, for a total consideration of up to MNT34,162,230,051 (equivalent to approximately USD13,736,431); and
- (iii) Security Services Agreement between M-Armor and the Group, whereby M-Armor agreed to provide security services to the Group for a period starting 1 January 2017 until 31 December 2019, for a total consideration of up to MNT16,063,469,250 (equivalent to approximately USD6,459,026).

LISTING RULES IMPLICATIONS

NIC is an associate of Dr. Oyungerel Janchiv, a non-executive Director. As such, NIC is a connected person of the Company and the transactions contemplated under the Domestic Transportation of Fuel, Site Storage and Fueling Services Agreement constitute continuing connected transactions of the Company.

Each of USS and M-Armor is a wholly-owned subsidiary of MCS Holding which is in turn wholly-owned and controlled by MCS Global (BVI) Limited. MCS Global (BVI) Limited is wholly-owned and controlled by MCS (Mongolia) Limited which owns (directly and indirectly) a 100% shareholding interest in MCS Mining Group Limited, a substantial shareholder holding 34.89% of the issued share capital of the Company as at the date of this announcement. As such, USS and M-Armor are connected persons of the Company within the meaning of the Listing Rules. Accordingly, the transactions contemplated under the Service Agreement and Security Service Agreement constitute continuing connected transactions of the Company, respectively.

As the applicable percentage ratios for the continuing connected transactions under the Domestic Transportation of Fuel, Site Storage and Fueling Services Agreement, Service Agreement and Security Services Agreement are expected to be more than 0.1% but less than 5%, the transactions contemplated under the Domestic Transportation of Fuel, Site Storage and Fueling Services Agreement, the Service Agreement and the Security Services Agreement are subject to the reporting and announcement requirements but exempt from independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

1. Domestic Transportation of Fuel, Site Storage and Fueling Services Agreement with NIC

Date

28 December 2016

Parties

Energy Resources as service purchaser

NIC as service provider

Principal terms

NIC agreed to provide following services to the Group:

- Receipt of fuel from the places or border points designated by Energy Resources;
- Fuel transportation by train from the designated places to Sainshand and storage of fuel thereat;
- Fuel transportation by truck from Sainshand to UHG storage; and
- Fuel distribution to the machines, facilities and equipment in the mining zone of Energy Resources by either its fuel station or site service facility.

Consideration and payment terms

The maximum consideration payable by the Group to NIC under the Domestic Transportation of Fuel, Site Storage and Fueling Services Agreement is MNT36,000,096,000 (equivalent to approximately USD14,475,426), inclusive of all costs associated with the services provided by NIC.

Invoices will be issued on a monthly basis and the Company is required to settle payment within 15 days upon receipt of valid invoice from NIC. No mobilization and de-mobilization payments are to be made by the Group.

Interest shall be incurred on delayed payments calculated from the 31st day of such delay at a rate of 0.04% per day.

The consideration was determined after arm's length negotiation between the Company and NIC taking into account the annual volume of fuel required for UHG mine operation, the fee quotation and costs structure of the services to be provided submitted by NIC. The Company also considered all relevant costs within the price component such as railway transportation cost, loading and unloading cost at railway station, warehouse storage cost and cost of fueling, which were determined by market benchmarks set by all participants in the market.

Annual caps

The following table sets out the annual caps for the Domestic Transportation of Fuel, Site Storage and Fueling Services Agreement for the three financial years ending 31 December 2019:

Financial year ending	Annual caps	Period covered
31 December 2017	MNT12,000,032,000 (equivalent to approximately USD4,825,142)	12 months from 1 January 2017 to 31 December 2017
31 December 2018	MNT12,000,032,000 (equivalent to approximately USD4,825,142)	12 months from 1 January 2018 to 31 December 2018
31 December 2019	MNT12,000,032,000 (equivalent to approximately USD4,825,142)	12 months from 1 January 2019 to 31 December 2019

The annual caps were determined based on the annual volume of fuel required for the UHG mine operation, the business development plan of the Group and other contingent costs such as possible inflation, future fluctuation in exchange rates, and possible changes in fuel price.

Terms of the Domestic Transportation of Fuel, Site Storage and Fueling Services Agreement with NIC

The Domestic Transportation of Fuel, Site Storage and Fueling Services Agreement will be effective for the period starting from 1 January 2017 until 31 December 2019.

Reasons for the transaction

In order to enable the Group to secure stable and reliable quality fuel transportation, site storage and fueling services for its mining activities and site operations, the Company takes into account factors such as quality of the services, ability of the service provider in meeting technical specifications and delivery schedules, and qualification and relevant experience of the service provider when selecting potential service provider(s). NIC was considered as the only potential service provider in terms of their technical capacity which has a large warehouse fuel storage in Tsogttsetsii, Umnugobi, and capable infrastructure at the UHG mine site to meet the operational and safety requirements of the Company. NIC is currently providing similar services to the Group under the Fuel Supply Agreement dated 18 October 2013 which is effective until 31 December 2016.

2. Service Agreement with USS

Date

28 December 2016

Parties

Energy Resources as service purchaser

USS as service provider

Principal terms

In broad terms, USS agreed to provide the following services to the Group on a day-to-day basis:

- Catering, camp management, laundry, cleaning, and maintenance services for camps, offices and industrial facilities and operational sites of the Group; and
- Cleaning, maintenance, cloakroom attendance for Ulaanbaatar office.

Consideration and payment terms

The maximum consideration payable by the Group to USS under the Service Agreement is MNT34,162,230,051 (equivalent to approximately USD13,736,431) inclusive of VAT, other applicable taxes and all other costs associated with the services provided by USS.

Invoices will be issued on a monthly basis and the Company is required to settle payment within 60 days upon receipt of a valid invoice from USS. No advance payment and no mobilization and de-mobilization payments are to be made by the Group.

Interest shall be incurred on delayed payments calculated from the 31st day of such delay at a rate of 6% per annum.

The consideration was determined after arm's length negotiation between the Company and USS taking into account the size of the location where services are to be provided and the number of employees utilising the camp site, the temporary ger camp located at the operational sites and the fee quotation and costs structure of the services to be provided as set out in the bid proposal submitted by USS.

Annual caps

The following table sets out the annual caps for the Service Agreement for the three financial years ending 31 December 2019:

Financial year ending	Annual caps	Period covered
31 December 2017	MNT11,387,410,017 (equivalent to approximately USD4,578,810)	12 months from 1 January 2017 to 31 December 2017
31 December 2018	MNT11,387,410,017 (equivalent to approximately USD4,578,810)	12 months from 1 January 2018 to 31 December 2018
31 December 2019	MNT11,387,410,017 (equivalent to approximately USD4,578,810)	12 months from 1 January 2019 to 31 December 2019

The annual caps were determined with reference to the internal projection of the amount of services required having regard to (i) the historical transaction amounts in respect of the office and camp supporting services; (ii) the anticipated respective increase in the number of employees and properties; (iii) the fee quotation and costs structure of the services to be provided as set out in the bid proposal submitted by USS; (iv) the business development plan of the Group; (v) increase in exchange rate and cost of materials to be delivered to the site; and (vi) possible inflation.

Term of the services

The Service Agreement will be effective for the period starting from 1 January 2017 until 31 December 2019.

Reasons for the transaction

In order to select the office and camp support services contractor for 2017 to 2019, the Company organized and conducted a competitive bidding process. The Company invited six companies (namely, Support Service Mongolia LLC, USS LLC, Nomads Catering & Integrated Service LLC, Mongol Market LLC, Lodestone Mogul LLC and ADEN Services Mongolia LLC) that are internationally and locally recognized experienced companies which provide office and camp supporting services to participate in the bidding process. Out of the six invitees, five are independent service providers. Only two companies (namely, USS LLC, Nomads Catering & Integrated Service LLC) submitted their bid proposals.

Bid proposals were evaluated in detail with reference to the overall scope of services offered, experience, financial capability, technical proposal, commercial proposal and proposed management approach. USS's bid proposal was evaluated to be the most favourable among the two bidding proposals received.

Hence, USS was selected as the successful bidder who can provide reliable services which meet high quality standards while incorporating international standards, methods and offer cost-effective solutions.

3. Security Services Agreement with M-Armor

Date

28 December 2016

Parties

Energy Resources as service purchaser

M-Armor as service provider

Principal terms

M-Armor agreed to provide the following services for Ulaanbaatar office, operational sites and other premises and facilities of the Group on a day-to-day basis:

- Guard services for all premises and facilities of the Group;
- Body guard service; and
- Safeguarding and services for prevention of unlawful conduct and violations.

Consideration and payment terms

The maximum consideration payable by the Group to M-Armor under the Security Services Agreement is MNT16,063,469,250 (equivalent to approximately USD6,459,026) inclusive of VAT, other applicable taxes and all other costs undertaken by M-Armor.

Invoices will be issued on a monthly basis and the Company is required to settle payment within 60 days upon receipt of valid invoice from M-Armor.

Interest shall be incurred on delayed payments calculated from the 31st day of such delay at a rate of 6% per annum.

The consideration was determined after arm's length negotiation between the Company and M-Armor taking into account the fee quotation and costs structure of the services to be provided as set out in the bid proposal submitted by M-Armor, estimated number of security guards required and labour costs.

Annual caps

The following table sets out the annual caps for the Security Services Agreement for the three financial years ending 31 December 2019:

Financial year ending	Annual caps	Period covered
31 December 2017	MNT5,354,489,750 (equivalent to approximately USD2,153,009)	12 months from 1 January 2017 to 31 December 2017
31 December 2018	MNT5,354,489,750 (equivalent to approximately USD2,153,009)	12 months from 1 January 2018 to 31 December 2018
31 December 2019	MNT5,354,489,750 (equivalent to approximately USD2,153,009)	12 months from 1 January 2019 to 31 December 2019

The annual caps were determined with reference to the number of security posts within the premises of the Group and the estimated number of security guards required and man-month rates having regard to (i) the fee quotation and costs structure of the services to be provided as set out in the bid proposal submitted by M-Armor; (ii) potential special occasions, events and natural disasters; (iii) the historical transaction amounts in respect of the security services; (iv) buffer to accommodate possible inflation; and (v) other contingent costs including future fluctuation in exchange rates.

Term of the services

The Security Service Agreement will be effective for the period starting from 1 January 2017 until 31 December 2019.

Reasons for the transaction

In order to select the security services contractor for 2017 to 2019, the Company organized and conducted a competitive bidding process which enables the Group to secure quality professional services at competitive prices. The Company invited four companies (namely, Bambai Security LLC, MPSS LLC, M-Armor LLC, and Ild Bambai LLC) that are internationally and locally recognized experienced companies which provide security services to participate in the bidding process. Out of the four invitees, three are independent service providers. All four invitees submitted their bid proposals.

Bid proposals were evaluated in detail with respect to the overall scope of services offered, financial capability, technical capability, experience and commercial proposal. M-Armor's bid proposal was evaluated as the most favourable, followed by the bid proposal submitted by Bambai Security Service LLC. The other two companies were disqualified at the bid proposal qualification round.

M-Armor was selected as the successful bidder who can provide reliable services which meet high quality standards while incorporating international standards, methods and offer cost-effective solutions.

INFORMATION ON THE GROUP

The Company is principally engaged in open-pit mining and sale of coking coal in Mongolia.

Energy Resources, an indirect wholly-owned subsidiary of the Company, is principally engaged in the operation of the UHG mine site.

INFORMATION ON NIC, USS AND M-ARMOR

NIC, an associate of Dr.Oyungerel Janchiv, a non-executive Director, is principally engaged in import, marketing and distribution of petroleum products in Mongolia.

USS, a wholly-owned subsidiary of MCS Holding, is principally engaged in provision of office and camp supporting services.

M-Armor, a wholly-owned subsidiary of MCS Holding, is principally engaged in provision of security services.

LISTING RULES IMPLICATIONS

NIC is an associate of Dr. Oyungerel Janchiv, a non-executive Director. Each of USS and M-Armor is a wholly-owned subsidiary of MCS Holding which is in turn wholly-owned and controlled by MCS Global (BVI) Limited. MCS Global (BVI) Limited is wholly-owned and controlled by MCS (Mongolia) Limited which owns (directly and indirectly) a 100% shareholding interest in MCS Mining Group Limited, a substantial shareholder holding 34.89% of the issued share capital of the Company as at the date of this announcement.

As such, NIC, USS and M-Armor are connected persons of the Company within the meaning of the Listing Rules. Accordingly, the transactions contemplated under the Domestic Transportation of Fuel, Site Storage and Fueling Services Agreement, the Service Agreement and the Security Services Agreement constitute continuing connected transactions of the Company, respectively.

As the applicable percentage ratios for the continuing connected transactions under the Domestic Transportation of Fuel, Site Storage and Fueling Services Agreement, Service Agreement and Security Services Agreement are expected to be more than 0.1% but less than 5%, the transactions contemplated under the Domestic Transportation of Fuel, Site Storage and Fueling Services Agreement, the Service Agreement and the Security Services Agreement are subject to the reporting and announcement requirements but exempt from independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

Dr. Oyungerel Janchiv, being a Director, has abstained from voting on the relevant resolutions of the Board in relation to the approval of the Domestic Transportation of Fuel, Site Storage and Fueling Services Agreement and the relevant annual caps. Each of Mr. Odjargal Jambaljamts and Mr. Od Jambaljamts, being a Director and a director of MCS Holding has abstained from voting on the relevant resolutions of the Board in relation to the approval of the Service Agreement, the Security Services Agreement and the respective relevant annual caps.

The Board (including the independent non-executive Directors) is of the view that the terms of the continuing connected transactions contemplated under each of the Domestic Transportation of Fuel, Site Storage and Fueling Services Agreement, the Service Agreement and the Security Services Agreement are fair and reasonable; such continuing connected transactions are on normal commercial terms or better and in the ordinary course of business of the Group; the entering into of the continuing connected transactions contemplated under each of the Domestic Transportation of Fuel, Site Storage and Fueling Services Agreement, the Service Agreement and the Security Services Agreement is in the interests of the Company and its shareholders as a whole; and that the relevant annual caps for the continuing connected transactions contemplated under each of the Domestic Transportation of Fuel, Site Storage and Fueling Services Agreement, the Service Agreement and the Security Services Agreement are fair and reasonable.

DEFINITIONS

“associate(s)”	has the same meaning ascribed to it under the Listing Rules;
“Board”	the board of Directors;
“Company”	Mongolian Mining Corporation (Stock code: 975), a company incorporated in the Cayman Islands with limited liability, whose shares are listed on the Main Board of the Stock Exchange of Hong Kong Limited;
“connected person”	has the same meaning ascribed to it under the Listing Rules;
“Director(s)”	director(s) of the Company;
“Domestic Transportation of Fuel, Site Storage and Fueling Services Agreement”	Domestic Transportation of Fuel, Site Storage and Fueling Services Agreement between NIC and Energy Resources dated 28 December 2016 in relation to the provision of fuel transportation, site storage and fueling services by NIC to the Group;
“Energy Resources”	Energy Resources LLC, a company incorporated in Mongolia with limited liability, is an indirect wholly-owned subsidiary of the Company;
“Group”	the Company and its subsidiaries;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
“M-Armor”	M-Armor LLC, a company incorporated in Mongolia with limited liability, is a wholly-owned subsidiary of MCS Holding;

“MCS Holding”	MCS Holding LLC, a company incorporated in Mongolia with limited liability;
“MNT”	togrok or tugrik, the lawful currency of Mongolia;
“NIC”	NIC LLC, a company incorporated in Mongolia with limited liability, is an associate of Dr. Oyungerel Janchiv, a non-executive Director;
“Security Services Agreement”	Security Services Agreement between M-Armor and Energy Resources dated 28 December 2016 in relation to the provision of security services by M-Armor to the Group;
“Service Agreement”	Services Agreement between USS and Energy Resources dated 28 December 2016 in relation to the provision of office and camp supporting services by USS to the Group;
“UHG”	the Group’s Ukhaa Khudag deposit located in the Tavan Tolgoi coalfield;
“USD”	United States Dollar, the lawful currency of the United States of America;
“USS”	Uniservice Solution LLC, a company incorporated in Mongolia with limited liability, is a wholly-owned subsidiary of MCS Holding;
“VAT”	value added tax;
“%”	per cent.

For the purpose of this announcement, unless otherwise indicated, the exchange rate of USD1.00 = MNT2,486.98, has been used, where applicable, for the purpose of illustration only and does not constitute a representation that any amount has been, could have been or may be exchanged at such rate or at any other rates.

For and on behalf of the Board
Mongolian Mining Corporation
Odjargal Jambaljamts
Chairman

Hong Kong, 28 December 2016

As at the date of this announcement, the board of directors of the Company consists of Mr. Odjargal Jambaljamts and Dr. Battengel Gotov, being the executive directors of the Company, Dr. Oyungerel Janchiv, Mr. Od Jambaljamts and Mr. Gankhuyag Adilbish, being the non-executive directors of the Company, and Dr. Khashchuluun Chuluundorj, Mr. Unenbat Jigjid and Mr. Chan Tze Ching, Ignatius, being the independent non-executive directors of the Company.