MONGOLIAN MINING CORPORATION

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 975)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2014

FINANCIAL HIGHLIGHTS

For the six months ended 30 June 2014, Mongolian Mining Corporation ("**MMC**" or the "**Company**") and its subsidiaries (the "**Group**") sold a total of 3.2 million tonnes ("**Mt**") of coal products and generated total revenue of USD192.6 million, compared to 3.1 Mt of coal products sold with total revenue of USD247.8 million for the six months ended 30 June 2013. The decrease in the total revenue was largely attributable to continued negative coking coal price trend, and to a lesser extent, to a lower sales volume of washed hard coking coal ("**HCC**"). The average selling price ("**ASP**") for HCC was USD86.2 per tonne for the six months ended 30 June 2014, compared to USD98.7 for the six months ended 30 June 2013, representing a decrease of 12.7%.

The Group generated 61.8% of total revenue from sales at Delivery-at-Place ("**DAP**") Ganqimaodu ("**GM**") terms, of which USD90.7 million and USD28.3 million were from sales of HCC and middlings, respectively. In addition, the Group generated 38.2% of total revenue from sales under Free-on-Transport ("**FOT**") terms amounting to USD31.9 million and under Cost-and-Freight ("**C&F**") terms amounting to USD41.7 million from sales of HCC under its strategy to penetrate to the inland market of the People's Republic of China ("**China**"). The revenue generated from HCC sales, including inland China sales, was USD164.3 million, representing 85.3% of the total revenue for the period.

The loss attributable to the equity shareholders of the Company for the six months ended 30 June 2014 was USD28.0 million compared to a loss of USD25.2 million for the six months ended 30 June 2013. The basic loss per share attributable to the equity shareholders of the Company amounted to USD0.76 cents for the six months ended 30 June 2014, as compared to basic loss per share of USD0.68 cents for the six months ended 30 June 2013.

The major contributing factor towards the Group's net loss position is a decrease in ASP of coking coal products due to challenging market conditions in China, as coking coal pricing was continuing to be affected by global supply and demand imbalances.

The Board does not recommend the payment of dividend for the six months ended 30 June 2014 (dividend for the six months ended 30 June 2013: 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 2014 together with the comparative figures for the corresponding period in 2013 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2014 – unaudited

		Six months ended 30 June	
		2014	2013
	Note	***USD'000***	*USD'000*
Revenue	*5*	**192,638**	247,849
Cost of revenue	*6*	**(172,177)**	(219,546)
Gross profit		**20,461**	28,303
Other revenue		**2,677**	201
Other net income		**34,446**	4,725
Selling and distribution costs		**(25,031)**	–
General and administrative expenses		**(16,343)**	(17,764)
Profit from operations		**16,210**	15,465
Finance income	*7(a)*	**1,944**	8,186
Finance costs	*7(a)*	**(47,725)**	(46,817)
Net finance costs	*7(a)*	**(45,781)**	(38,631)
Share of losses of associates		**(9)**	(280)
Share of profits of joint venture		**1**	–
Loss before taxation	*7*	**(29,579)**	(23,446)
Income tax	*8*	**1,574**	(1,783)
Loss attributable to the equity shareholders of the Company for the period		**(28,005)**	(25,229)
Other comprehensive income for the period			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation		**(69,743)**	(33,492)
Total comprehensive income attributable to the equity shareholders of the Company for the period		**(97,748)**	(58,721)
Basic and diluted loss per share	*9*	**(0.76) cents**	(0.68) cents

CONSOLIDATED BALANCE SHEET
As at 30 June 2014 – unaudited

	Note	**At 30 June 2014** *USD'000*	At 31 December 2013 *USD'000*
Non-current assets			
Property, plant and equipment, net	*10*	**627,949**	574,467
Construction in process	*12*	**59,010**	148,371
Lease prepayments		**76**	85
Intangible assets	*13*	**696,354**	696,354
Interest in associates		**75**	2,203
Interest in joint venture		**85**	–
Other financial assets		**1,934**	–
Other non-current assets		**2,260**	6,590
Deferred tax assets		**25,388**	21,781
Total non-current assets		**1,413,131**	1,449,851
Current assets			
Assets held for sale	*14*	**1,026**	56,906
Inventories		**95,981**	106,461
Trade and other receivables	*15*	**249,646**	209,117
Cash at bank and in hand		**67,523**	76,535
Total current assets		**414,176**	449,019
Current liabilities			
Short-term borrowings and current portion of long-term borrowings	*16*	**133,818**	141,818
Trade and other payables	*17*	**301,496**	287,951
Current taxation		**3,936**	3,426
Obligations under finance leases		**37**	81
Total current liabilities		**439,287**	433,276
Net current (liabilities)/assets		**(25,111)**	15,743
Total assets less current liabilities		**1,388,020**	1,465,594
Non-current liabilities			
Long-term borrowings, less current portion	*16*	**164,534**	150,089
Senior notes	*18*	**594,872**	594,329
Provisions		**13,682**	10,118
Deferred tax liabilities		**149,599**	149,627
Obligations under finance leases		**–**	9
Other non-current liabilities		**448**	455
Total non-current liabilities		**923,135**	904,627
NET ASSETS		**464,885**	560,967
CAPITAL AND RESERVES			
Share capital		**37,050**	37,050
Reserves		**427,835**	523,917
TOTAL EQUITY		**464,885**	560,967

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.

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

As at 30 June 2014, the Group had net current liabilities of USD25,111,000 (as at 31 December 2013: net current assets of USD15,743,000) and made a loss of USD28,005,000 for the period then ended. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

The Directors of the Company are confident that the Group will continue to obtain ongoing support from its bankers and shareholders. This includes but not limited to banking facilities available from the Group's bankers. Accordingly, the Directors of the Company consider that it is appropriate to prepare these financial statements on the going concern basis. These financial statements do 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**").

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2013 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2014 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:

- Amendments to IFRS 10, IFRS 12 and IAS 27, *Investment entities*
- IFRIC 21, *Levies*
- Amendments to IAS 32, *Financial instruments: Presentation – Offsetting financial assets and financial liabilities*
- Amendments to IAS 36, *Impairment of assets: Recoverable amount disclosures for non-financial assets*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

Amendments to IFRS 10, IFRS 12 and IAS 27, Investment entities

The amendments provide consolidation relief to those parents which qualify to be an investment entity as defined in the amended IFRS 10. Investment entities are required to measure their subsidiaries at fair value through profit or loss. These amendments do not have an impact on the Group's interim financial report as the Company does not qualify to be an investment entity.

IFRIC 21, Levies

The Interpretation provides guidance on when a liability to pay a levy imposed by a government should be recognised. The amendments do not have an impact on the Group's interim financial report as the guidance is consistent with the Group's existing accounting policies.

Amendments to IAS 32, Financial instruments: Presentation – Offsetting financial assets and financial liabilities

The amendments to IAS 32 clarify the offsetting criteria in IAS 32. The amendments do not have an impact on the Group's interim financial report as they are consistent with the Group's existing accounting policies.

Amendments to IAS 36, Impairment of assets: Recoverable amount disclosures for non-financial assets

The amendments to IAS 36 modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset or cash generating unit ("**CGU**") whose recoverable amount is based on fair value less costs of disposal. The amendments do not have an impact on the Group's interim financial report, as the Group does not have an impairment loss or impairment reversal been recognised for the six months then ended; neither does the Group estimate the assets or CGU's recoverable amount based on fair value less costs of disposal.

4 SEGMENT REPORTING

The Group has one business segment, the mining, processing, transportation and sale of coal. The majority of its customers are located in China. Based on information reported to the chief operating decision maker for the purpose of resource allocation and performance assessment, the Group's only operating segment is the mining, processing, transportation and sale of coal. 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. 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. Revenue during the period ended 30 June 2014 includes approximately USD73,582,000 (six months ended 30 June 2013: nil) which arose from sales of HCC to customers through agent sales arrangements for diversifying and expanding the Group's sales channels. The amount of each significant category of revenue recognised for the six months ended 30 June 2014 is as follows:

	Six months ended 30 June	
	2014	2013
	USD'000	*USD'000*
HCC	**164,305**	216,387
Washed semi-soft coking coal ("**SSCC**")	**–**	2,452
Washed thermal coal ("**middlings**")	**28,333**	26,025
Raw coal ("**ROM coal**")	**–**	2,985
	192,638	247,849

6 COST OF REVENUE

	Six months ended 30 June	
	2014	2013
	USD'000	*USD'000*
Mining costs	**70,342**	91,927
Processing costs	**19,349**	21,823
Transportation costs	**45,256**	55,238
Others#	**37,230**	50,558
	172,177	219,546

Others include USD8,606,000 (six months ended 30 June 2013: USD15,803,000) relating to the royalty tax on the coal sold.

7 LOSS BEFORE TAXATION

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

(a) Net finance cost:

	Six months ended 30 June	
	2014	2013
	USD'000	*USD'000*
Interest income	**(1,944)**	(8,186)
Finance income	**(1,944)**	(8,186)
Interest on bank and other borrowings	**11,118**	10,880
Net change in fair value of derivative component of senior notes	**600**	8,120
Interest on liability component of convertible bond	**–**	1,034
Interest on liability component of senior notes	**27,168**	27,101
Transaction costs	**1,587**	1,288
Unwinding interest on		
– Other long-term payables	**6**	25
– Accrued reclamation obligations	**413**	396
Less: Interest expense capitalised	**(4,783)**	(5,873)
Net interest expense	**36,109**	42,971
Foreign exchange loss, net	**11,616**	3,846
Finance cost	**47,725**	46,817
Net finance cost	**45,781**	38,631

* Borrowing costs have been capitalised at a rate of 8.1% and 7.9% per annum for the six months ended 30 June 2014 and 2013, respectively.

(b) Staff costs:

	Six months ended 30 June	
	2014	2013
	USD'000	*USD'000*
Salaries, wages, bonuses and benefits	**14,606**	14,066
Retirement scheme contributions	**1,762**	865
Equity-settled share-based payment expenses	**1,666**	2,121
	18,034	17,052

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:

	Six months ended 30 June	
	2014	2013
	USD'000	*USD'000*
Depreciation and amortisation	**25,011**	29,315
Operating lease charges: minimum lease payments	**2,269**	2,707
Costs of inventories	**172,177**	219,546
Selling and distribution costs*	**25,031**	–

* *Selling and distribution costs is about logistic expenses arose from sales of washed hard coking coal to customers through agent sales arrangement.*

8 INCOME TAX

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

	Six months ended 30 June	
	2014	2013
	USD'000	*USD'000*
Current tax	**4,206**	3,344
Deferred taxation	**(5,780)**	(1,561)
	(1,574)	1,783

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

	Six months ended 30 June	
	2014	2013
	USD'000	*USD'000*
Loss before income tax	**(29,579)**	(23,446)
Notional tax on loss before taxation	**2,278**	3,139
Tax effect of non-deductible expense *(Note (iii))*	**442**	2,775
Tax effect of non-taxable income *(Note (iii))*	**(4,992)**	(443)
Tax losses not recognised	**698**	208
Tax losses not recognised in previous years but utilised in current period	**–**	(3,896)
Actual tax expenses	**(1,574)**	1,783

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 Mongolian National Togrog ("**MNT**") 3 billion taxable income and 25% of the remaining taxable income for the six months ended 30 June 2014 and 2013.

(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 2014 and 2013.

(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 2014 and 2013.

9 LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share for the six months ended 30 June 2014 is based on the loss attributable to equity shareholders of the Company for the period of USD28,005,000 (six months ended 30 June 2013: loss attributable to equity shareholder of the Company of USD25,229,000) and the 3,705,036,500 ordinary shares (six months ended 30 June 2013: 3,705,036,500 shares) in issue during the six months ended 30 June 2014.

(b) Diluted loss per share

For the six months ended 30 June 2014 and 30 June 2013, basic and diluted loss per share are the same as the effect of the potential ordinary shares outstanding is anti-dilutive.

10 PROPERTY, PLANT AND EQUIPMENT

Mining properties of the Group as at 30 June 2014 include stripping activity assets of USD251,991,000 (31 December 2013: USD211,487,000).

During the six months ended 30 June 2014, the additions of property, plant and equipment of the Group, representing mainly coal handling and preparation plant phase III and various mining structures, amounted to USD142,195,000 (six months ended 30 June 2013: USD66,248,000). Items of property, plant and equipment with net book value of USD3,232,000 were disposed of during the six months ended 30 June 2014 (six months ended 30 June 2013: USD502,000). As at 30 June 2014, 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 USD113,236,000, USD29,094,000 and USD3,278,000, respectively (31 December 2013: USD123,836,000, USD33,901,000 and USD3,803,000, respectively).

11 IMPAIRMENT OF LONG-LIVED ASSETS

Given the fact that the carrying amount of the Group's net assets exceeded the Group's market capitalisation as at 30 June 2014, according to IAS 36, Impairment of assets, management has undertaken a review on the carrying amount of the Group's property, plant and equipment, construction in progress and intangible assets related to the UHG Mine and BN Mine operations (collectively referred to as "**UHG and BN Assets**") for impairment assessment. For the purpose of this, the UHG and BN Assets are treated as a CGU. As at 30 June 2014, the Group's net asset value exceeded its market capitalisation by USD231 million which might imply there are impairments that have not been recognised. Based on the Group's impairment assessment, the recoverable amount of the CGU exceeds its carrying amount by USD16.5 million as at 30 June 2014 and it did not result in the identification of an impairment loss and no impairment loss is recognised accordingly. The Company believes that the estimates and assumptions incorporated in the impairment assessment are reasonable, however, the estimates and assumptions are subject to significant uncertainties and judgements. The Company has made its best estimates of all relevant factors to be included in the value in use model based on current conditions. The Company believes that the difference between the market capitalisation and the Group's net assets could be largely explained by market valuations generally attributing a negative value to the industry sector of which the Group operates. Despite this, it is possible that the underlying estimates/assumptions, individually or in aggregate, can be changed significantly and impairment charges may be required in future period.

12 CONSTRUCTION IN PROGRESS

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

13 INTANGIBLE ASSETS

Intangible assets represent the acquired mining right.

14 ASSETS HELD FOR SALE

Assets held for sale is mainly related to the paved road between UHG and the 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 MNT157,847,184,615 (equivalent to approximately USD90,323,000 converted at exchange rate on payment receipt date) on 13 February 2014.

Accordingly, the intangible asset related to the operating right of paved road with a carrying amount of MNT94,127,456,758 (equivalent to approximately USD56,906,000) was classified as assets held for sale. The operating right of paved road is not depreciated since it was classified as assets held for sale.

15 TRADE AND OTHER RECEIVABLES

	At 30 June 2014 *USD'000*	At 31 December 2013 *USD'000*
Trade receivables *(Note (a))*	**106,001**	17,514
Other receivables *(Note (c))*	**153,674**	196,632
	259,675	214,146
Less: allowance for doubtful debts *(Note (b))*	**(10,029)**	(5,029)
	249,646	209,117

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. As at 30 June 2014, all the trade receivables are aged within one year.

(b) Impairment of trade receivables

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

As at 30 June 2014, an allowance for doubtful debts amounts to USD10,029,000 (31 December 2013: USD5,029,000) which was made on a collective basis in respect of the Group's trade receivable balances outstanding at the balance sheet date.

(c) Other receivables

	At 30 June 2014 ***USD'000***	At 31 December 2013 *USD'000*
Amounts due from related parties *(Note (i))*	**698**	522
Prepayments and deposits *(Note (ii))*	**52,280**	63,903
VAT and other tax receivables *(Note (iii))*	**36,256**	68,531
Derivative financial instruments *(Note (iv))*	**100**	700
Amounts due from the GoM in relation to the termination of the Concession Agreement *(Note (v))*	**45,861**	50,623
Others	**18,479**	12,353
	153,674	196,632

Notes:

(i) Amount due from related parties are unsecured, interest-free and have no fixed repayment terms.

(ii) At 30 June 2014, 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 embedded derivative in the senior notes (see Note 18).

(v) 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 Ukhaa Khudag coking coal mine and Gashuun Sukhait 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.

16 BORROWINGS

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

	At 30 June 2014 *USD'000*	At 31 December 2013 *USD'000*
Bank loan (secured)	**264,545**	255,455
Less: Current portion of long-term borrowings	**(93,818)**	(101,818)
Less: Unamortised transaction costs	**(6,193)**	(3,548)
	164,534	150,089

As at 30 June 2014, the Group's long-term interest-bearing borrowings from European Bank for Reconstruction and Development, Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V., and Deutsche Investitions-und Entwicklungsgesellschaft mbH of USD87,272,000 (31 December 2013: USD92,727,000), USD16,364,000 (31 December 2013: USD19,637,000) and USD10,909,000 (31 December 2013: USD13,091,000), respectively, bearing interest of 6 months LIBOR + 3.75%~4.25%, were secured by the Group's property, plant and equipment and cash at bank.

As at 30 June 2014, the Group's long-term interest-bearing borrowings from BNP Paribas of USD150,000,000 (31 December 2013: USD130,000,000), bearing interest of LIBOR + 6.00%, were secured by the Group's cash at bank and inventory. The attributable transaction cost amounts to USD5,298,000. 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 "**Facilities Agreement**") with two international banks as arrangers and original lenders. The Facilities Agreement relates to the provision of a coal pre-export loan facility of USD150,000,000 bearing interest of LIBOR + 6.00%, and a greenshoe option of up to USD50,000,000. The greenshoe option will be executed in the condition that the USD150,000,000 facility has been utilised, and the Group could reach respective financial covenants requirements as set out in the Facilities Agreement.

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

	At 30 June 2014 *USD'000*	At 31 December 2013 *USD'000*
Within 1 year or on demand	**93,818**	101,818
After 1 year but within 2 years	**133,227**	101,818
After 2 years but within 5 years	**37,500**	51,819
	264,545	255,455

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

	At 30 June 2014 *USD'000*	At 31 December 2013 *USD'000*
Bank loans		
– Unsecured	**40,000**	40,000
Current portion of long-term borrowings (bank loans)	**93,818**	101,818
	133,818	141,818

In March 2014, the Group has converted the short-term loan of USD40,000,000 from Trade and Development Bank of Mongolia into revolving credit facility and extended its maturity date to 20 March 2015 with an interest of 10.0% per annum.

Certain bank loans of the Group are subject to the fulfilment of covenants relating to certain of the Group's financial ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the draw down loan balances would become payable on demand. During the period ended 30 June 2014, 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 period ended 30 June 2014.

17 TRADE AND OTHER PAYABLES

	At 30 June 2014 *USD'000*	At 31 December 2013 *USD'000*
Trade payables *(Note (i))*	**118,348**	93,181
Receipts in advance *(Note (ii))*	**10,356**	20,603
Amounts due to related parties *(Note (iii))*	**9,578**	20,330
Payables for purchase of equipment	**7,762**	10,316
Security deposit on construction work	**1,725**	2,755
Interest payable	**21,273**	18,365
Other taxes payables	**5,135**	2,558
Promissory notes *(Note (iv))*	**105,000**	105,000
Others *(Note (v))*	**22,319**	14,843
	301,496	287,951

Notes:

(i) All trade payables are due and payable on presentation or within one month.

(ii) Receipts in advance represent payments in advance made by third party customers in accordance with the terms set out in respective sales agreements.

(iii) Amounts due to related parties represent 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 28 March 2014, the maturity date of one promissory note was extended from 31 March 2014 to 2 July 2014, and subsequent to the reporting date, the maturity date was further extended to 30 September 2014, 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.

18 SENIOR NOTES

	USD'000
At 1 January 2013	592,891
Interest charged during the year	54,688
Interest payable	(53,250)
At 31 December 2013	594,329
At 1 January 2014	**594,329**
Interest charged during the period *(Note 7(a))*	**27,168**
Interest payable	**(26,625)**
At 30 June 2014	**594,872**

On 29 March 2012, the Company issued guaranteed senior notes in the aggregate principal amount of USD600,000,000 and 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 2014 was USD100,000 (2013: USD700,000) 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.

19 DIVIDENDS

The Board of the Company does not recommend declaration and payment of interim dividend in respect of the six months ended 30 June 2014 (six months ended 30 June 2013: 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 period ended 30 June 2014.

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 2014 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 Group had net current liabilities of approximately USD25,111,000 as at 30 June 2014 and made a loss of USD28,005,000 for the period then ended 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 its 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

In the first half of 2014, crude steel production in China, the Group's principal market, witnessed an increase of approximately 5.7% compared to the same period in 2013. However, the price of coking coal remained under pressure amid competitive market conditions driven by the continued imbalance of global coking coal supply and demand. As a result of this imbalance, the average spot price for premium hard low-volatile coking coal imported into northern China from seaborne markets in the first half of 2014 was down by 22.3 % compared to the average price in the first half of 2013.

During the period under review, the Group's management remained focused on cash flow management strategies to ensure liquidity, strictly controlling operating costs and limiting capital expenditure. Production output from the Group in the first half of 2014 was optimized to support this strategy, and adjusted downward based upon available product inventory levels and sales volume projections to ensure continuity of supply meeting customers' requirements.

Within the challenging market, the Group maintained its leading position as the largest coal exporter from Mongolia with around 3.1 Mt of coal products exported in the first half of 2014, representing approximately one-third of the total coal export volume from Mongolia during the same period. Still operating as the only major washed coal producer and exporter from Mongolia, the Group's market share on an equivalent washed product basis is higher still.

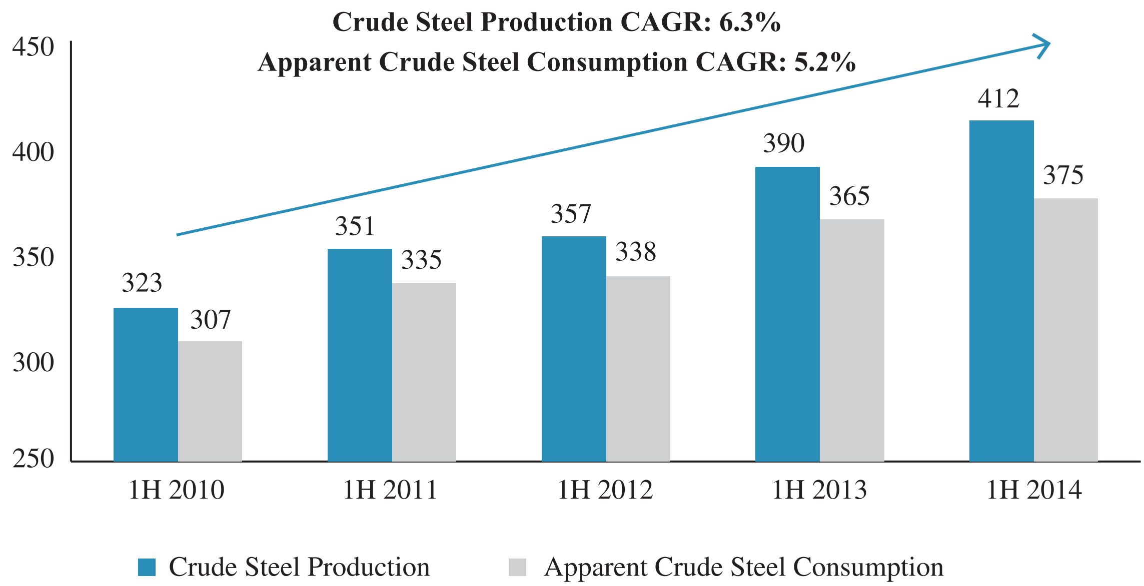
With an aim to expand its integrated coking coal mining, processing, transportation and marketing platform, the Group implemented strategic measures to further improve its market penetration within China. These included the establishment of a joint venture company with Risun Mining Co., Ltd ("**Risun**") for coal trading and distribution, and with Shenhua Group ("**Shenhua**") of China for development of cross border railway infrastructure. These measures were pursued to improve access to transportation infrastructure interconnecting Mongolia and China, improving supply network and distribution in order to deliver more cost effective coal products to end-users in the main steel producing regions within China. This improvement to the coal delivery chain is expected to increase the Group's market penetration, strengthen the Group's position as a reliable supplier of high quality coking coal products, and enhance the Group's brand reputation in the target markets within China.

As part of the measures taken to maintain liquidity, on 5 March 2014, the Group successfully refinanced its existing coal pre-export loan facility. This reduced the burden of scheduled repayments in 2014, and extended the maturity of the loan until 1 December 2016. In addition, on 13 February 2014, the Group received approximately USD90.3 million for transfer of the UHG-GS Road to Erdenes MGL LLC, a state-owned Company appointed by the GoM to exercise state ownership pursuant to a decision by the GoM dated 16 August 2013.

Chinese Steel, Coke and Coking Coal Sectors Performance

Data from the World Steel Association ("**WSA**") indicates that China produced 411.9 Mt of crude steel in the first half of 2014, up by 5.7% from the same period of 2013, resulting in compounded annual growth rate ("**CAGR**") of 6.3% since the first half of 2010.

Figure 1: Chinese crude steel production volumes (Mt):



Source: WSA, China Coal Resource

The installed steel production over-capacity relative to demand for product remains the main challenge faced by the Chinese steel industry, with the Ministry of Industry and Information Technology of China ("**MIIT**") announcing plans to enforce the shutdown of 48 Mt of out-dated iron and steel making capacity by the end of September 2014. This is expected to help the sector by removing excess production capacity, pushing the market towards equilibrium between supply and demand. Resulting improvement to steel sector efficiency is subsequently expected to promote the use of higher quality raw materials, of benefit to the Group which produces the higher grade coking coal that will be sought.

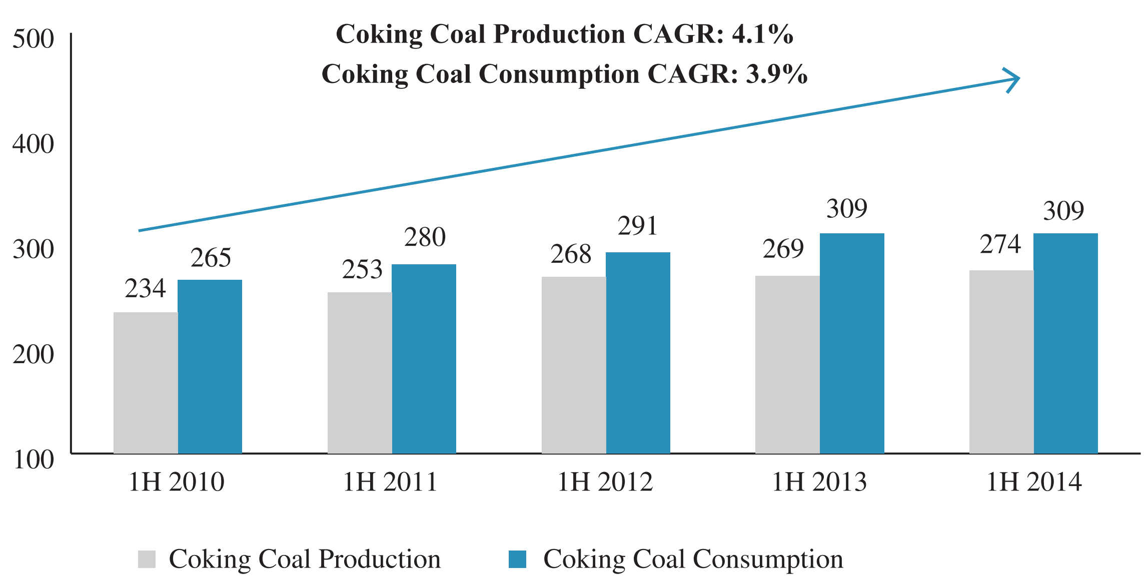
Within the context of decelerating economic growth and over-supplied domestic steel market conditions, Chinese steel producers have diverted product volumes to overseas markets. Subsequently, the quantity of steel exported from China increased by 33.6% in the first half of 2014 compared to the same period in 2013, totaling 41.0 Mt. Also, following the withdrawal of coke export taxation in 2013, the quantity of coke exported from China has increased to 3.9 Mt in the first half of 2014, representing a 159.6% increase year-on-year.

During the first half of 2014, in response to the imbalance between supply and demand of coke and coking coal within China, coke and coking coal producers adjusted output in accordance with the steel sector demand. China Coal Resource reported that capacity utilization at coke plants improved moderately in June 2014, with smaller plants generally at 75% capacity and larger plants above 85% capacity, as demand from steel mills increased in anticipation of stabilizing steel prices. According to the National Bureau of Statistics of China ("**NBS**") data, China produced 233.9 Mt of coke for the period between January and June 2014, down by 1.1% compared to the corresponding period in 2013. During the same period, the Chinese coking coal producers increased their combined output by 1.9% to 274.4 Mt. However, it was reported in July that the largest coking coal producer in Inner Mongolia has halted the production from its mines operating in Wuhai region due to high inventories and below-cost prices of coking coal. Moreover, as a measure to curtail oversupply, the MIIT announced that 12 Mt of coking coal production facilities are due to be shut as part of the "Eliminate Outdated Capacity" program initiated by the Chinese government to promote environmentally friendly technology.

NBS data indicates that China's coal mining and washing industry profit declined by 43.9% to Renminbi ("**RMB**") 61.3 billion in the first half of 2014, compared to the same period last year. Within this overall reduction, for example, in Shaanxi province, the third largest coal producing province in China, coal industry profit slumped by 70%. According to the China National Coal Association, more than 70% of China's coal companies are now in loss-making situations, indicating that further production cuts may be imminent. In addition, according to the data released by the NBS, China's total fixed-asset investment in the coal mining and washing sector declined by 5.6% year-on-year to RMB193.5 billion. During the same period, private investment in the sector decreased by 7.0% from the previous year to RMB107.6 billion.

Deliberate actions taken to mothball outdated technology, reduce output from currently installed capacity and limit capacity expansion within China shall assist to restore the balance of supply and demand for coking coal within China. Improving the equilibrium is expected to serve as a base for supporting both domestic and seaborne coking coal pricing towards the end of 2014.

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



Source: China Coal Resource

Chinese Coking Coal Import and Mongolian Export Dynamics

The volume of coking coal imported by China in the first half of 2014 dropped to 30.9 Mt from 35.3 Mt reported in the first half of 2013, representing a decrease of 12.4% year-on-year. Australia and Mongolia retained their positions as the first and second largest suppliers respectively, both expanding their market share. Australia increased its export volume by 13.1%, while Mongolia achieved a 26.2% year-on-year increase. The volume of coking coal sourced from all other countries was only 27.2%, a significant decrease compared to the combined 45.5% of market share for the same period last year.

Table 1. China's semi-annual coking coal import volume by country of origin (Mt) (Note):

Countries	**1H 2014**	1H 2013	Change
Australia	**15.0**	13.3	13.1%
Mongolia *(Note)*	**7.5**	6.0	26.2%
Russia	**3.2**	4.3	-25.7%
Canada	**3.1**	5.7	-46.0%
USA	**1.4**	3.6	-60.0%
Others	**0.7**	2.6	-70.8%
Total	**30.9**	35.3	-12.4%

Source: China Coal Resource

Note: Imports from Mongolia include both raw and washed coking coal; MMC remains as the only major producer and exporter of washed coking coal

The GoM has implemented several measures to support the country's coal exports during 2014, including eliminating numerous administrative constraints at the border crossings and reducing administrative fees in relation to coal exports payable to various governmental agencies in Mongolia. Total coal exports from Mongolia, according to the National Statistics Office increased by 1.9 Mt and reached a total of 9.4 Mt in the first half of 2014, representing a year-on-year increase of 25.0%. The Group has increased its market share, from approximately 31.5% of total coal exports reported for full year of 2013, to 33.7% of total coal exports from Mongolia in the first half of 2014.

OPERATING ENVIRONMENT

Legal Framework

Key regulatory updates and endorsements were witnessed in the first half of 2014, particularly with regard to the Law on Investment ("**Investment Law**"), Law on Minerals ("**Minerals Law**") and Law on Custom Tariff and Duty, with all having significant positive implications upon the overall investment climate within Mongolia.

The GoM's decision on 28 January 2014 to reduce the customs tax on imported gasoline and diesel from 3% to 1%, and the reduction in excise duty for imported diesel from MNT109,000 to MNT30,000 per tonne, had positive impact by lowering these cost components within diesel pricing.

Following adoption of the Investment Law by the Parliament of Mongolia (the "**Parliament**") in 2013, on 21 February 2014 the GoM passed a regulation governing investment agreements between investors and the GoM under the Investment Law. The regulation sets out the processes required to apply for, negotiate and execute investment agreements, and also provides provisions with regard to monitoring of investment agreements once executed. Based upon this, the GoM may enter into an investment agreement with investors seeking to invest more than MNT500 billion, allowing stabilization of their operational and tax environment.

With regard to payment of royalties, on 21 March 2014 as per Resolution No. 88, the GoM adopted Methodologies on (i) the Determination and Calculation of Minerals Royalty, and (ii) the Determination of Sales Value of Coal Sold to Foreign Markets for the Calculation of the Royalty. On the same day, amendment was also made to Resolution No. 88 of 2007, which defines sources of the mineral product pricing, ruling to use contract prices for coal sold internationally for the calculation of royalty due. These resolutions became effective from 1 April 2014, but were renewed and amended on 4 July 2014, according to which contract prices for the calculation of royalty on coal exported are to be used until 1 January 2015. The 4 July 2014 amendment also softened the requirement of due days for the royalty for all mineral products to be payable within first 10 days of the following month after completion of sales or loading of products, compared to its original requirement of 21 days.

In accordance with the renewed Methodology on Determination of Sales Value of the Coal Sold to Foreign Markets for the Calculation of Royalty ("**the Methodology**"), the sales value of exported coal is to be determined based upon price used in coal sales contracts. However, if more than 10.0% difference exists between the contract price and the sales value of equal product, exported through the same border crossing, during the same period, with same classification, same standards and same qualities recorded, then the indirect or market price method of defining sales value shall be applied. In accordance with Article 17 of the Law on Custom Tariff and Duty, the sales value of the coal exported, if it is determined based upon the price agreed in coal sales contracts, shall be consistent with the custom declaration value or value calculated only up to the Mongolian border point. The Methodology also provides requirement on coal export contract content, frequency of coal quality laboratory testing and reporting compliance.

On 29 May 2014, the National Council for Standardization of Mongolia endorsed two new Mongolian National Standards, MNS 6456:2014 was endorsed with regard to "**Coal classification**", and MNS 6457:2014 with regard to "**Coal and coal product classification**". These new standards were developed by a research panel experienced in coal geology and related fields, and are generally aligned with various international standards on coal classification. Adoption of these standards will assist to improve the competitiveness of Mongolian coal products, and streamline the flow of coal exported.

On 6 June 2014, the Parliament adopted an amendment to the Law on Custom Tariff and Duty and introduced a new tax regime relieving the tax burden on investors seeking to invest in capital intensive projects such as establishment of construction materials, oil and agricultural processing plants, and also projects that introduce nanotechnology, biotechnology and other innovative technologies. In addition, under this amendment, power plant and railway construction projects are granted an extension or partial payment of its customs duty and/or VAT for their imported technical materials, equipment and components for a two-year period. This amendment became effective on the day of approval, and following the Parliament's decision, the GoM approved its detailed regulations on 14 June 2014. This initiative by the GoM is intended to support investors and improve the overall investment climate by decreasing taxes payable, especially during capital intensive construction phases of projects in the abovementioned sectors.

In pursuit of clearer and more coherent regulatory framework applicable to the mining sector, the Parliament adopted an amendment to the Minerals Law on 1 July 2014. Under this amendment, the three and a half year moratorium on new exploration licences was lifted. The resumption of exploration activities in Mongolia is expected to positively influence restoration of foreign and domestic investor confidence, and subsequently lead to increase in foreign direct investment.

The Parliament also approved a renewed Law on Petroleum on 1 July 2014, which provides for more detailed regulatory and operational guidelines for both domestic and foreign entities involved in the exploration, processing, transportation and marketing of crude oil originating from Mongolia. In the medium to long term, the development of the petroleum sector may potentially have a direct positive impact on the Group's operational cost by diversifying supply sources of diesel and other petrochemicals in use.

BUSINESS OVERVIEW

Coal Resources and Exploration Activities

Ukhaa Khudag deposit

The Group was previously granted Mining Licence MV-11952 (the "**UHG mining licence**") covering 2,960 hectares across the Ukhaa Khudag ("**UHG**") coal deposit. Prior to the current reporting period, the Group's geological team conducted extensive exploration activities within this licence area. This included a total of 166,385 metres of drilling across 1,435 individual boreholes, each geophysically logged, and with analytical laboratory test work performed on a total of 32,556 samples collected.

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

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

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

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

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

Notes:

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

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

In the second half of 2013, a limited program of infill exploration drilling was initiated with the intent to ensure sufficient detailed understanding of coal measures ahead of the advancing pit highwall was maintained. This program continued as planned into the first half of 2014, with a total of 14,467 metres of HQ drilling across forty eight boreholes drilled in this program. HQ is a drilling tube size typically used in exploration diamond drilling, representing outside hole diameter of 96 mm and inside core diameter of 63.5 mm. From this work, 2,701 samples have been analyzed at the Group's onsite laboratory, with computerized modeling and interrogation of data collected yet to commence.

With the review process of the Australian Guidelines for Estimating and Reporting of Inventory Coal, Coal Resources and Coal Reserves in relation to the JORC (2012) standard not yet complete, the Group is waiting to commit to timing with regard to further Resource update pending finalized requirements.

As such, official mid-year mine pit survey data was used to calculate the material mined from 30 June 2012 until 30 June 2014, which equaled 17.4 Mt, and represents depletion from the stated Resource.

Baruun Naran deposit

Resources of the Baruun Naran ("**BN**") deposit sit beneath the originally acquired Mining Licence 14493A ("**BN mining licence**") of 4,482 hectares area, and Mining Licence MV-017336 ("**THG mining licence**") of 8,340 hectares area granted to the Group on 24 June 2013.

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

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

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

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

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

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

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

Notes:

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

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

Since 30 June 2012, as part of the Group's strategic response to the coal market situation, mining activity within the BN mining licence area has been halted with management refocused on UHG operation. As such, no material change to previously reported BN Resource was considered. Similarly, since 30 April 2013, with no mining conducted within the THG mining licence area, no material change to the previously reported THG Resource was considered.

The Group has embarked upon a limited scale infill drilling program, with an intent to improve understanding of coal quality and seam structure to input into future integrated mining and processing schedules. Commencing in the first quarter of 2014, two HQ boreholes were drilled for a total of 1,411 metres of drilling in this program until the end of first half of 2014. From this work, samples have been collected and provided to the Group's onsite laboratory for analysis, however, computerized modeling and detailed structural analysis are yet to commence.

The Group is awaiting finalization of the Australian Guidelines for Estimating and Reporting of Inventory Coal, Coal Resources and Coal Reserves in relation to the JORC (2012) standard before committing to further Resource estimate revision.

Open-cut Coal Reserves

RungePincockMinarco Limited ("**RPM**") was engaged in 2013 to produce the most recent update of the Group's long-term mining schedules at both UHG and BN. In completing an integrated Life-of-Mine ("**LOM**") plan, the JORC Coal Reserve estimations at both the UHG and BN deposits were subsequently updated as of 31 December 2012.

Coal Reserve estimation was based on open cut, multi seam, truck and excavator mining methods and cost estimations as currently in practice at both UHG and BN mines. Categorization of coal seam propensity for coking and thermal product was guided by Mr. John Trygstad from Norwest Corporation ("**Norwest**") within the integrated LOM study.

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. Practical pit designs were created within the selected optimized pit shells, representative of the stated revenue assumptions of the study.

The pit optimization algorithms used were limited to a vertical depth of 300 metres at UHG mine and 350 metres at BN mine respectively, based upon the current geotechnical knowledge regarding slope stability criteria of each deposit. Through application of estimated mining and metallurgical factors, mineable in situ coal within the pit shell was converted to ROM and product coal quantities. From this, mine schedules were sequenced to maximize value derived.

Total combined ROM Coal Reserve under the Group's control increased from 460 Mt as at 31 December 2011 to 480 Mt as at 31 December 2012, representing an increase of 20 Mt, excluding the depletion of 9.4 Mt Reserve as a result of mining activity at UHG and BN mines in 2012. Within the total combined ROM Coal Reserve quantity, the coking coal component increased by 63 Mt, including allowance for mining depletion during 2012, with the thermal coal Reserve component decreasing correspondingly by 33 Mt.

The open-cut ROM Coal Reserve for the UHG coal deposit was estimated as at 31 December 2012, based on an as-received basis with 5% total moisture (Table 5). Based upon mine survey measurement, production activity until the end of 30 June 2014 has depleted the stated UHG ROM Coal Reserve by a further 12.5 Mt.

Table 5. UHG ROM Coal Reserve (Note):

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

The open-cut ROM Coal Reserve for the BN coal deposit was estimated as at 31 December 2012, based on an as-received basis with 6% total moisture (Table 6). Based upon mine survey measurement, production activity until 30 June 2014 has depleted the BN ROM Coal Reserve by less than 1 Mt, and is considered to impart no material change.

Table 6. BN ROM Coal Reserve (Note):

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

Notes:

(i) The estimate of Coal Reserve presented above has been carried out in accordance with the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves" (December, 2012). Technical information in the UHG and BN Coal Reserve estimation reports has been compiled by Mr. Greg Eisenmenger, who is a Member of the Australasian Institute of Mining and Metallurgy. He is a full time employee of RPM and has extensive experience in the mining industry, working for over 30 years with major mining companies, mining contractors and consultants. During this time he has either managed or contributed significantly to numerous mining studies related to the estimation, assessment, evaluation and economic extraction of coal in Australia, New Zealand, Indonesia, Mozambique and Mongolia. He has sufficient experience which is relevant to the style of 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.

Without further Resource update at either UHG mine or BN mine, pending both updated exploration data and finalization of the Australian Guidelines for Estimating and Reporting of Inventory Coal, Coal Resources and Coal Reserves in relation to the JORC (2012) standard, no further Reserve update is possible at this time.

Operations

During the first half of 2014, output from the Group's mining, processing and transportation operations was deliberately adjusted by management to address the continued challenging coking coal market conditions. Overall strategy was aligned with eliminating unessential operating costs, avoiding capital expenditure, minimizing working capital requirements to maintain liquidity. The main actions taken included tailoring production output to meet committed sales volumes whilst maximizing use of available coal inventories.

Coal Mining

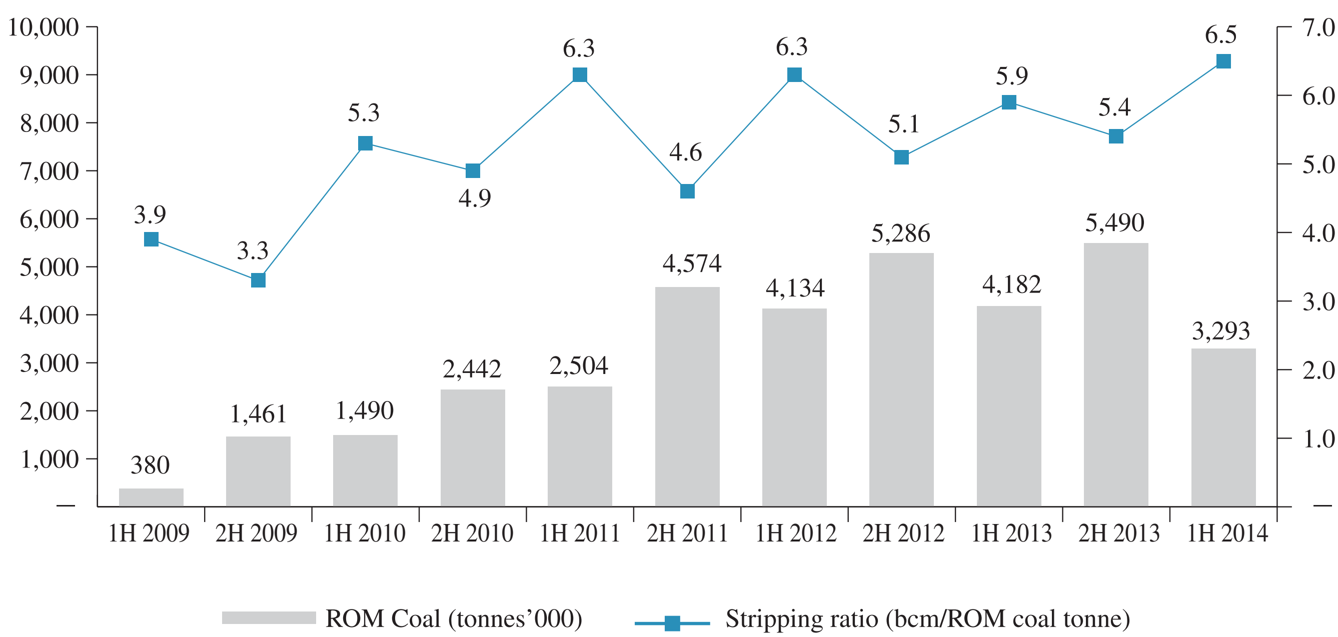
Total ROM coal production achieved by the Group in the first half of 2014 amounted to 3.3 Mt, as shown in Figure 3, which was all sourced from the UHG mine. This represents output reduction of 21.3% compared to the first half of 2013. Overburden movement required to uncover this coal was 21.3 million bank cubic metres ("**Mbcm**"), resulting in stripping ratio of 6.5 bank cubic metres ("**bcm**") per ROM tonne within the period. Whilst coal output was reduced, continuation of overburden movement was justified on the basis of maximizing value of fixed cost liabilities and preferential contractor rates available during the first half of 2014. Further adjustment to mine production in the second half of 2014 is expected to see full year stripping ratio more closely aligned with LOM average stripping ratio of 5.5 bcm per ROM tonne.

To minimize total cost of mining during the first half of 2014, site management focused upon utilizing waste dump areas within the shortest possible hauling distance from the mining faces. Fewer truck hours were thus required to move the equivalent volume of overburden, constraining plant and diesel costs. Innovative design and scheduling from the site technical team enabled 7.9 million loose cubic metres ("**Mlcm**") of the overburden material moved to be dumped into short haulage locations that were not foreseen in LOM planning, and hence will not impact future haulage costs adversely. A further 15.5 Mlcm of short haulage dump volume not foreseen in LOM planning has also been identified as able to be utilized, which will be targeted in the second half of 2014 and into 2015.

Implementation of the Fleet Management System ("**FMS**") continued after commissioning in the fourth quarter of 2013, has proven its value in being able to more effectively utilize the mining fleet through improved monitoring and control of productive activities. On a real time basis, the fleet requirements are now able to be monitored for rapid adjustment, ensuring that operation of fleet superfluous to fluctuating requirements can be avoided or assigned more effectively.

With increased focus on both mining and blasting services contractors on stringent and escalating key performance indicator ("**KPI**") requirement metrics, performance in several key areas has trended positively. Key areas of improvement have included increasing mining truck tire life, decreasing the proportion of more expensive emulsion type explosives used and fewer unplanned delays to Coal Handling and Preparation Plant ("**CHPP**") feed.

Figure 3: The Group's historical semi-annual ROM coal production volumes and actual stripping ratio:



Coal Processing

The Group processed a total of 3.7 Mt of ROM coal in the first half of 2014, resulting in an output of 1.8 Mt of primary and 2.4 Mt total coal product as shown in Figure 4. Within the 3.7 Mt of ROM feed, 0.2 Mt of ROM coal was fed under contract washing arrangement, making use of available installed capacity on a fee for service basis. CHPP feed targets were deliberately adjusted on sales volume forecasts, which were matched with strategy to drawdown product stockpile inventory levels at Tsagaan Khad ("**TKH**") stockpile in Mongolia and GM stockpile in China.

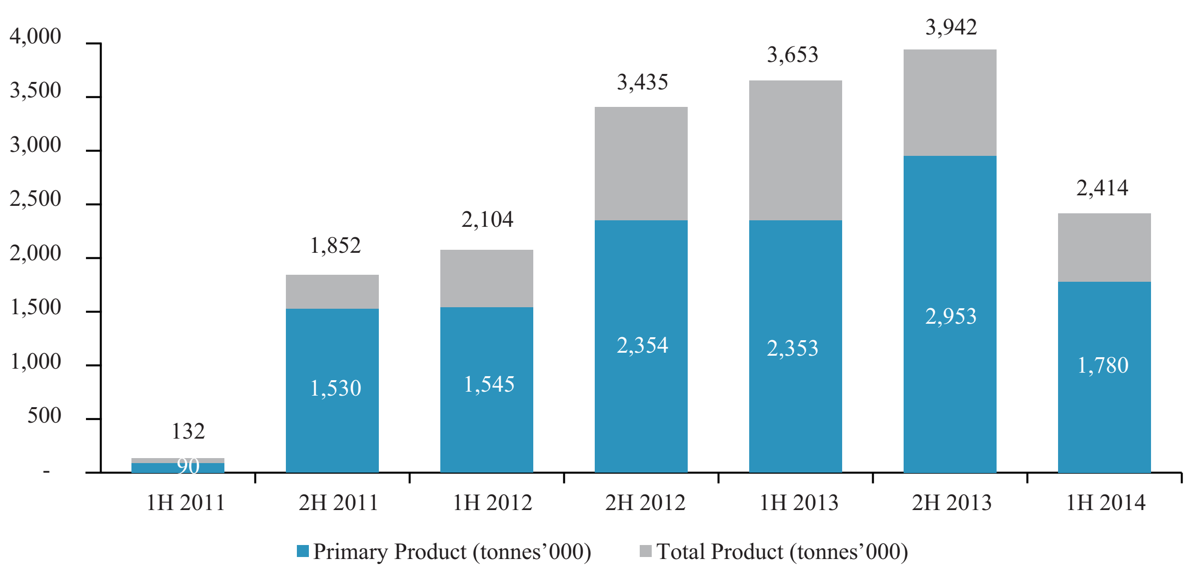
Primary yield of 51% was achieved for the first half of 2014, within total yield of 70%. Both results are reflective of efforts to maximize utilization of available coal inventory from existing ROM stockpiles and as uncovered in the most cost effective mining sequence.

With three CHPP modules commissioned, the installed capacity allowed for major planned maintenance events to be performed in parallel to operation, with one or two modules able to operate whilst maintenance work was completed concurrently on module(s) placed on standby.

Beginning in 2014, maintenance workforce rosters were adjusted in the CHPP to maximize the effectiveness of the scheduled maintenance regime being improved in parallel with introduction of an Enterprise Resource Planning ("**ERP**") system across the entire operation to focus on maximizing the efficiency of asset management. In combination with opportune maintenance performed during module standby, improvement has begun in terms of plant availability and reliability.

Operation of the Belt Filter Press ("**BFP**") commissioned late in the fourth quarter of 2013 has progressed well, with time and resources available in the first half of 2014 to fine tune the installation. Further process tuning is expected to continue in 2014, with focus on the spiral and flotation circuits upstream of the BFP in order to maximize product yields.

Figure 4: The Group's historical semi-annual total and primary processed coal production volumes:



Coal Transportation

With CHPP output adjusted downward in the first half of 2014, the domestic transportation volume required to be hauled was also reduced. Improvements achieved in 2013 with regard to utilization of the Group's owned domestic transportation fleet of double-trailer heavy haul trucks ensured that the 2.9 Mt of coal hauled between UHG and TKH stockpiles in the first half of 2014 could be managed entirely without third party contractors.

Organized on the basis of further improving utilization of available capacity, the Group's double-trailer heavy haul trucks were contracted out on a fee-for-service basis by entering into haulage contracts to transport coal both to CHPP for subsequent toll washing and also to TKH stockyards prior to export. A total of 0.2 Mt was delivered to UHG ahead of contract washing, and 0.5 Mt of washed and raw coals was transported from the Tavan Tolgoi area to TKH.

Maintaining control over the Group's domestic transportation without requirement to utilize contract haulage in conjunction with utilizing available spare capacity on a fee-for-service basis has enabled further cost reduction on the long haul transportation between UHG and TKH. Cost per tonne recorded in the first half of 2014 of USD6.7 per tonne represents a reduction of 18.3% compared to the cost of USD8.2 per tonne in the first half of 2013.

Third party contractors continued to be utilized by the Group during the reporting period for cross-border transportation between TKH and GM. Sufficient capacity and control on coal movement across the border between Mongolia and China was maintained to allow export transportation of approximately 3.2 Mt.

In readiness for increased throughput volume of coal at the Group's custom bonded stockpile facility at TKH, improvements to the stockpile design and overall traffic flow layout have been implemented. This improvement has been made in support of targeting further productivity increase of the double-trailer heavy haul trucks over the long haul section between UHG and TKH further, in anticipation of ramping up production as market conditions strengthen.

Occupational Health, Safety and Environment

During the period under review, approximately 3.0 million man-hours were worked by employees, contractors and sub-contractors across sites managed by the Group. Within this quantity of work completed, only 2 Lost Time Injuries ("**LTIs**") were recorded, resulting in an overall Lost Time Injury Frequency Rate ("**LTIFR**") of 0.7 LTIs per million man-hours worked.

LTIFR of 0.7 year-to-date signifies improvement compared to 2013 where the full year statistic equated to 1.2 LTIs per million man-hours worked equivalent, and in conjunction with increased detail of reporting and investigation of lesser incidents and near misses is testament to the drive for continuous improvement within the Company.

Delivery of Occupational Health, Safety and Environment ("**OHSE**") related training was strengthened with establishment of a specifically focused training team covering the whole of the combined operations. During the first half of 2014, there were 5,328 individual training session attendances, for a total of 20,146 man-hours of OHSE specific training, delivered to employees, contractors and visitors.

The Group's performance in terms of LTIFR contrasts well in comparison to industry statistics from more established jurisdictions publicly reported. For example, the Commissioner for Mine Safety and Health within the Queensland Mines Inspectorate published its Annual Performance Report, which indicated that the LTIFR within the surface coal mining industry of Queensland increased from 3.1 to 3.5 between Australian financial years 2011-12 and 2012-13.

Regrettably, despite continued focus committed from the Group's management to ensure the health and safety of all personnel present on sites under management, an incident resulting in fatality occurred at the TKH stockyard facility in March 2014. Following the incident, the Group has exceeded the statutory requirements in terms of assistance to the family of the deceased, and the official investigation has concluded that no further corporate liability exists.

Marketing and Sales

Within the context of a challenging market environment, the Group focused its efforts on maintaining uninterrupted sales and export activities, continuously delivering committed coal products to its customers and maintaining its brand name and position as a reliable supplier of high quality coking coal products. In doing so, the Group has implemented a number of strategic initiatives to penetrate inland markets within China with an aim to further improve market access and sales chain.

On 25 June 2014, the Group entered into a joint venture agreement with Risun, to establish a joint venture company registered in the Tianjin Airport Economic Zone of China, for joint transportation, sales and distribution of coal products. Risun is the largest independent coke and related coal-derived chemicals producer and supplier in China. Under this coal marketing structure, the Group will hold 51.0% of the total equity interest in the joint venture. The total investment of the joint venture is RMB14 million and the registered capital of the joint venture is RMB10 million which will be contributed by the Group and Risun in proportion to their respective equity interest in the joint venture within two years of its establishment. As of the end of the reporting period, the joint venture was in the process of incorporation. It is expected that the Group will subsequently benefit from access to Risun's existing sales network, allowing expansion over its current geographical market penetration in major steel and coke producing regions in China, namely in the Hebei and Shandong provinces, as a result.

Prior to establishing the joint venture, in the first half of 2014, the Group together with Risun jointly marketed 0.3 Mt of coking coal to inland customers including Qiananshi Jiujiang Wire Co., Ltd, Jinneng Science & Technology Co., Ltd and Hebei Jingye Group. Additional to this, the Group initiated shipments via agents to customers in Shandong, Jilin and Ningxia markets as part of its strategy to diversify its customer base.

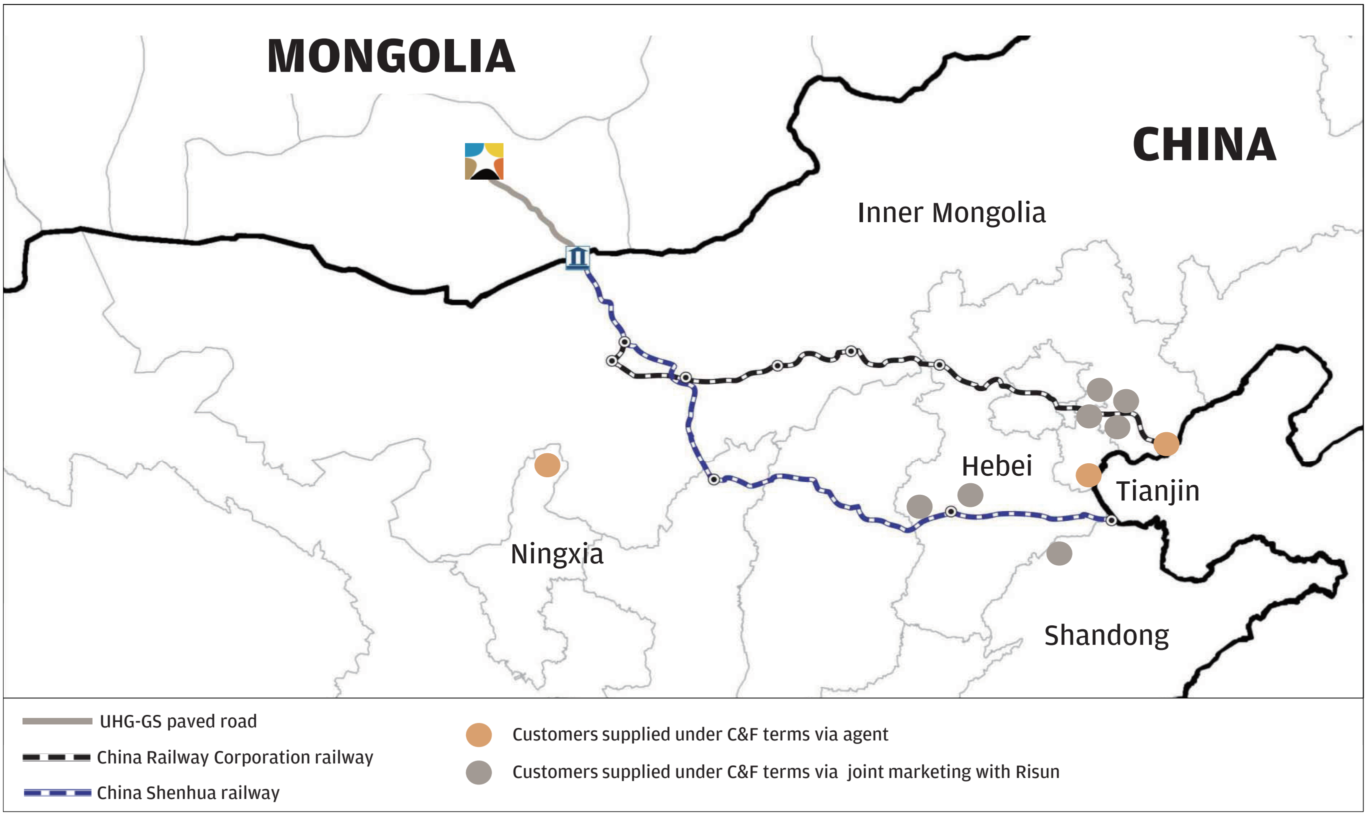
Picture 1: MMC and Risun contract signing ceremony

Front row, from left: *Mr. Wang Feng Shan, General Manager of Marketing, Risun Group; Dr. Battsengel Gotov, CEO of MMC.* ***Back row, from left:*** *Mr. Wang Nian Ping, Vice President of China Risun Coal Chemicals Group Limited; Mr. Yang Xue Gang, Chairman of Risun Group; Mr. Odjargal Jambaljamts, Chairman of MMC; Mr. Tuvshin Narmandakh, Executive General Manager of Sales and Distribution, MMC.*

In the first half of 2014, the Group's operating subsidiaries have exported 1.8 Mt of HCC and 1.3 Mt of middlings to China via the Gashuun Sukhait ("**GS**") – GM border crossings. In addition to its self-produced coal products, the Group has procured third party coal and has arranged imports to China under sales and distribution arrangements described below. During the first half of 2014, only limited volumes for third party coal were sourced. However, it represents initial steps toward expanding the Group's sales and marketing platform into an integrated coal trading platform. The platform under development will enable the selling and marketing of coal products not only from its own mines, but also from neighboring mines in Mongolia, leveraging the Group's capacity and advanced position to process and transport coal in Mongolia.

The Group sold 1.3 Mt of HCC and 1.3 Mt of middlings under DAP GM terms. Under such sales arrangements, coal is being exported from Mongolia by the Group's operating subsidiaries, and the ultimate title of goods and revenue recognition is completed upon delivery to customers' designated custom bonded yards located at GM.

Picture 2: Sales and distribution network in China



Commencing in 2014, the Group initiated development of its own sales and distribution channels in China. As part of this initiative, the Group has started to maintain product inventory at GM, and sold 0.3 Mt of HCC under FOT terms by arranging load out to customers' arranged transportation and 0.3 Mt of HCC under C&F terms delivering products from GM to end-user locations.

To facilitate this, the Group's operating subsidiaries are exporting coal from Mongolia and delivering to agents' designated custom bonded yards located at GM, using prevailing market prices for products delivered to independent third party customers under DAP GM terms.

Title of goods is retained by the Group under the agent agreements governing the contractual relations and responsibilities between the Group and the agents, with the agents conducting all required custom clearance procedures for imported coal products. The agents are further engaged in the delivery of coal to end-user customers designated by the Group, under the terms agreed by the Group, which are either FOT terms whereby products are transferred to customers by loading out to transportation truck and/or rail from stockyards at GM and Jinquan or C&F terms whereby transportation via truck and/or rail to end-user customer destinations is arranged.

Revenue collection is performed by agents, who are entitled to recover incurred costs and fixed agent fees. Under C&F terms, the contracts with end-user customers are entered using prevailing regional market prices for similar products. All costs related to sales and distribution of products within China are booked under sales and distribution expenses, and described in detail in the Financial Review section. The following table shows the breakdown of HCC volumes supplied to customers in China under the above arrangements.

Table 7. Sales and distribution volumes supplied via agent arrangements in the first half of 2014:

#	Delivery terms	Volume delivered (tonnes'000)	Share in total HCC sales volume (%)
1	FOT	321.9	16.9%
2	C&F	336.0	17.6%
	TOTAL	**657.9**	**34.5%**

Transportation Infrastructure

Cross Border Railway

On 16 August 2013, the GoM adopted Resolution No. 299 containing actions to be taken in support of coal exports from Mongolia. Within this Resolution, the GoM confirmed the decision to build a standard gauge (1,435 mm) cross border railway connecting the ports of GS in Mongolia and GM in China ("**Cross border railway**").

Subsequent to Resolution No. 299, on 21 April 2014, the Group together with Mongolian state-owned company Erdenes Tavantolgoi JSC ("**ETT**"), Tavantolgoi JSC ("**TT**") and Shenhua formed a joint venture named Gashuunsukhait Railway LLC ("**GS Rail JV**"). The purpose of this joint venture is to develop the Cross border railway. The Group, together with ETT and TT, hold 51% in equal portions of the equity interest in the GS Rail JV, with Shenhua holding the remaining 49%.

In the first half of 2014, the Pre-Feasibility and Detailed Feasibility studies along with all necessary engineering surveys were conducted. Detailed engineering design works are now being undertaken by the Third Railway Design Institute of China. Results of the studies were submitted to the GoM in June 2014 for its review and approval, while relevant bi-lateral border and railway interconnection agreements are under discussion between the governments of Mongolia and China. Once complete, the Cross border railway is expected to facilitate export of up to 27 Mtpa, with the Group having unrestricted access on a non-discriminatory and equal treatment basis. The Cross border railway is expected to be a significant step in facilitating Mongolian coal exports to the Chinese market, with reduced transportation costs and improved efficiency resulting for all companies involved.

Picture 3: Joint venture agreement signing ceremony of Gashuunsukhait Railway LLC

From left to right: *Dr. Battsengel Gotov, CEO of MMC, Mr. Odjargal Jambaljamts, Chairman of MMC; Mr. Batsuuri Yaichil, CEO of Erdenes Tavantolgoi JSC; Dr. Ling Wen, CEO of China Shenhua Energy Company Limited; Mr. Gankhuyag Davaajav, Minister for Mining; H.E. Mr. Wang Xiaolong, Ambassador of China to Mongolia; Mr. Xue Jilian, Senior Vice-President of China Shenhua Energy Company Limited; Mr. Seddorj Renchinbyamba, CEO of Tavantolgoi JSC; Mr. Batzaya Baasandorj, at-that-time State Secretary of the Ministry of Road and Transportation; Mr. Jigjid Rentsendoo, State Secretary of the Ministry of Mining; Mr. Batsaikhan Purevsambuu, CEO of Mongolian Railway SOE; and Mr. Shao Junjie, Chairman of China Shenhua Overseas Development and Investment Co., Ltd.*

UHG-GS Paved Road

GoM Resolution No. 299 of 16 August 2013 also included direction with regard to takeover under state ownership of the UHG-GS Paved Road, including the border crossing facilities at GS. Following guidance from the Ministry of Economic Development of Mongolia, Erdenes MGL LLC was appointed to exercise state ownership, with transfer fully completed and compensation paid to the Group on 13 February 2014.

With completion of this transaction upon execution of all subsequent legal documents, the Group received net consideration of MNT157.8 billion as compensation, equal to approximately USD90.3 million based upon the exchange rate on the date of receipt of payment. After considering USD53.8 million carrying value of the UHG-GS Paved Road, net gain of USD36.5 million in relation to the Agreement, which was derived through recuperation of compensation for costs associated with depreciation and amortization, road operation and maintenance, financing and management, overhead and administrative costs, was recognised as other net income in the consolidated statement of comprehensive income. Agreement to transfer the UHG-GS Paved Road assets, which was signed on 8 December 2013, became effective on the date of actual payment settlement.

Under the Paved Road Operations and Maintenance Agreement signed with Erdenes MGL LLC, the Group continues to be involved in the operation and maintenance of the paved road. This is as part of a special purpose joint venture company, Gashuun Sukhait Road LLC ("**GS Road JV**"), founded jointly with the other main mining companies utilizing the paved road including ETT and TT.

Within this GS Road JV, the Group maintains 40% equity interest, while ETT and TT maintain 40% and 20% interest respectively. All personnel and operating capacities of Gobi Road LLC, the wholly owned subsidiary of the Group responsible for paved road operation and maintenance prior to asset disposal, were transferred to the GS Road JV at the end of the reporting period in order to maintain uninterrupted continuity of the paved road operations and maintenance. The Group maintains unrestricted access to use the road capacity on a non-discriminatory, equal treatment basis.

Business Outlook

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

The Group will continue to monitor and assess the market situation whilst prioritizing focus on the liquidity, working capital management, cost control, operational efficiency and productivity. In doing so, it will continue to enhance the Group's core competitiveness, allowing it to maintain market share and sales volumes in 2014.

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

FINANCIAL REVIEW

Revenue

During the first six months of 2014, the Group managed through continued downward coking coal price pressure due to prolonged global coking coal supply and demand imbalance. The Group's management strategically steered through the period aiming to maintain ample liquidity and tightly manage cash flow through strict measures in controlling operational costs and limiting capital outflow.

As part of its long term mission, the Group implemented initiatives to expand its integrated coking coal mining, processing, transportation and marketing platform through further penetrating the inland markets in China. Strategic measures to gain access to transportation infrastructure interconnecting Mongolia and China, and establishing supply network and channels to deliver its coal products to end-user customer base in main steel producing regions in China have been the Group's priority. This is expected to strengthen the Group's position as a reliable supplier of high quality coking coal products and further build its reputation for quality branded products in the market. The new initiatives to further penetrate inland markets within China resulted in new associated revenue and costs as noted below.

The Group booked a total revenue of USD192.6 million during the first half of 2014, compared to USD247.8 million during the first half of 2013. Revenue amounting to USD119.1 million, equivalent to 61.8% of total revenue, was generated from sales at DAP GM terms, of which USD90.7 million and USD28.4 million were from sales of HCC and middlings, respectively. In 2013 all sales revenue were generated at DAP GM terms.

Under the new strategy of penetrating the inland China market, the Company generated 38.2% of total revenue from sales under FOT terms amounting to USD31.9 million and under C&F terms amounting to USD41.7 million during the first half of 2014. These were sales of HCC only, while all middlings were sold at DAP GM terms. The total HCC revenue including inland China sales was USD164.3 million, representing 85.3% of the total revenue for the period.

The decrease in the total revenue as compared to the corresponding period in 2013 was largely attributable to continued negative coking coal price trend, and lesser extent, to lower sales volume of HCC.

During the period under review, the Group's pricing followed the negative trend apparent for all coking coal products in the global market. The ASP for HCC was USD86.2 per tonne for the six months ended 30 June 2014, supported by higher HCC selling prices of inland China sales. The ASP of FOT and C&F term sales were USD99.1 per tonne and USD124.1 per tonne, respectively, while ASP of DAP GM sales was USD72.7 per tonne which was around 26.3% lower compared to USD98.7 per tonne in the first half of 2013.

The Group's total sales volume including inland China for the six months ended 30 June 2014 reached approximately 3.2 Mt of coal products, representing an increase of approximately 0.1 Mt or 0.8% compared to 3.1 Mt of coal products sold for the six months ended 30 June 2013 (Table 8). Total volume for HCC for the six months ended 30 June 2014 reached approximately 1.9 Mt, representing a decrease of 0.3 Mt or 13.0% compared to 2.2 Mt for the six months ended 30 June 2013.

Table 8. Sales volume, revenue and ASP (Note):

	Six months ended 30 June 2014				Six months ended 30 June 2013				
	DAP GM	**FOT**	**C&F**	**Total**	DAP GM	FOT	C&F	Total	Change
Sales volume (tonnes'000)	**2,497.7**	**321.9**	**336.0**	**3,155.6**	3,131.6	–	–	3,131.6	0.8%
HCC	**1,248.0**	**321.9**	**336.0**	**1,905.9**	2,191.7			2,191.7	-13.0%
SSCC				**–**	34.4			34.4	100.0%
Middlings	**1,249.7**			**1,249.7**	790.8			790.8	58.0%
Raw coal				**–**	114.7			114.7	100.0%
Revenue (USD'000)	**119,056**	**31,900**	**41,682**	**192,638**	247,849	–	–	247,849	-22.3%
HCC	**90,723**	**31,900**	**41,682**	**164,305**	216,387			216,387	-24.1%
SSCC				**–**	2,452			2,452	100.0%
Middlings	**28,333**			**28,333**	26,025			26,025	8.9%
Raw coal				**–**	2,985			2,985	100.0%
ASP (USD/tonne)	**47.7**	**99.1**	**124.1**	**61.1**	79.1	–	–	79.1	-22.8%
HCC	**72.7**	**99.1**	**124.1**	**86.2**	98.7			98.7	-12.7%
SSCC				**–**	71.2			71.2	100.0%
Middlings	**22.7**			**22.7**	32.9			32.9	-31.0%
Raw coal				**–**	26.0			26.0	100.0%

Note: Raw coal sold in 2013, represents raw thermal coal, which is a non-caking coal mainly used in power generation.

For the six months ended 30 June 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. In the first half of 2013, the Group derived more than 10.0% of its revenue from four customers, with the purchase amounts of approximately USD77.5 million, USD47.4 million, USD42.2 million and USD41.1 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.

The following tables presents, for the periods indicated, the Group's total and individual costs of revenue in terms of amount and also unit costs of revenue calculated on a per total product sold basis (Table 9 and Table 10):

Table 9. Cost of revenue by source:

	Six months ended 30 June					
	2014	2013	Change	**2014**	2013	Change
	USD'000	*USD'000*		***tonnes'000***	*tonnes'000*	
Cost of revenue	**172,177**	219,546	-21.6%	**3,155.6**	3,131.6	0.8%
Self-produced coal	**166,814**	219,546	-24.0%	**3,092.2**	3,131.6	-1.3%
Procured coal	**5,363**	–	100.0%	**63.4**	–	100.0%

During the first half of 2014, the total cost of revenue was USD172.2 million, compared to USD219.5 million during the first half of 2013. The cost of revenue of self-produced coal was reduced by 24.0% from USD219.5 million to USD166.8 million as a result of the continuous measures undertaken by the management of the Company to increase efficiency and reduce costs. The cost of revenue of procured coal, which was procured from third parties and sold by the Group's operating subsidiaries as an initial step to expand the Group's sales and marketing platform to integrated coal trading platform, was USD5.4 million during the first half of 2014.

Table 10. Total and individual costs of revenue and unit costs of revenue of self-produced coal:

	Six months ended 30 June					
	2014	2013	Change	**2014**	2013	Change
	USD'000	*USD'000*		***USD/tonne***	*USD/tonne*	
Cost of self-produced coal	**166,814**	219,546	-24.0%	**54.0**	70.1	-23.0%
Mining cost	**70,342**	91,927	-23.5%	**22.8**	29.4	-22.4%
Variable cost	**38,832**	50,641	-23.3%	**12.6**	16.2	-22.2%
Fixed cost	**26,227**	34,903	-24.9%	**8.5**	11.2	-24.1%
Depreciation and amortization	**5,283**	6,383	-17.2%	**1.7**	2.0	-15.0%
Processing cost	**19,349**	21,823	-11.3%	**6.3**	7.0	-10.0%
Variable cost	**7,798**	7,762	0.5%	**2.5**	2.5	0.0%
Fixed cost	**2,554**	3,834	-33.4%	**0.9**	1.2	-25.0%
Depreciation and amortization	**8,997**	10,227	-12.0%	**2.9**	3.3	-12.1%
Handling cost	**4,607**	7,165	-35.7%	**1.5**	2.3	-34.8%
Transportation cost	**45,256**	55,238	-18.1%	**14.6**	17.6	-17.0%
Logistics cost	**7,175**	10,695	-32.9%	**2.3**	3.4	-32.4%
Variable cost	**2,640**	3,222	-18.1%	**0.8**	1.0	-20.0%
Fixed cost	**3,599**	3,899	-7.7%	**1.2**	1.3	-7.7%
Depreciation and amortization	**936**	3,574	-73.8%	**0.3**	1.1	-72.7%
Site administration cost	**8,054**	4,486	79.5%	**2.6**	1.4	85.7%
Transportation and stockpile losses	**(1,279)**	5,859	-121.8%	**(0.4)**	1.9	-121.1%
Royalty and fees	**13,310**	22,353	-40.5%	**4.3**	7.1	-39.4%
Royalty	**8,606**	15,803	-45.5%	**2.8**	5.0	-44.0%
Air pollution fee	**2,005**	3,034	-33.9%	**0.6**	1.0	-40.0%
Custom fee	**2,699**	3,516	-23.2%	**0.9**	1.1	-18.2%

The Group successfully reduced its mining, processing, handling, transportation and logistics costs, resulting in an overall decreased cost of revenue from USD219.5 million in the first half of 2013 to approximately USD166.8 million in the first half of 2014.

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 2014, the Group's mining costs were approximately USD70.3 million (first half of 2013: USD91.9 million). Mining unit cost was USD19.8 per ROM tonne for the six months ended 30 June 2014, compared to USD18.6 in the first half of 2013.

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

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

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

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

Therefore, with the adoption of IFRIC 20, the Group identified components of the mine in accordance with the mine plan, and 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 2014 was 2.9 bcm per tonne, same as during the six months ended 30 June 2013.

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 the costs associated with the operations of CHPP including power and water costs. During the period of six months ended 30 June 2014, the Group's processing cost was approximately USD19.4 million (first half of 2013: USD21.8 million), of which approximately USD9.0 million is related to the depreciation and amortization of the CHPP, USD3.4 million incurred in the UHG Power Plant for the power generation and distribution, and USD1.1 million incurred in the UHG Water Supply Facility for the water extraction and distribution related to the washed coal sold during the period.

Unit processing cost calculated per ROM coal in-feed tonne increased by USD0.9 or 20.0% from USD4.5 per ROM tonne in the first half of 2013 to USD5.4 per ROM tonne in the first half of 2014. The increase was mainly due to increase of depreciation expenses with the full operation of CHPP since the commissioning of CHPP module 3.

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 period of six months ended 30 June 2014, the Group's handling cost was approximately USD4.6 million (first half of 2013: USD7.2 million). Unit handling cost decreased by USD0.8 or 34.8% from USD2.3 per tonne in the first half of 2013 to USD1.5 per tonne in the first half of 2014. The decrease is mainly attributable to cost savings arising from reduced rehandle and increased direct feed from mining operation to CHPP, as a result of increased focus brought about through modification to mining contractor KPI metrics.

Transportation costs include costs related to the transportation of ROM coal from the BN mine to the CHPP located at the UHG mine, the transportation of coal products from UHG to TKH, and the transportation of coal products to GM, including fees paid to third party transportation contractors.

During the period of six months ended 30 June 2014, the Group's transportation costs were USD45.3 million (first half of 2013: USD55.2 million), of which USD20.8 million was related to long-haul (UHG-TKH) transportation, and USD24.5 million was related to short-haul (TKH-GM) cross-border transportation.

The Group successfully decreased its overall transportation costs in the UHG-GM section by USD3.0 per tonne or 17.0% from USD17.6 per tonne in the first half of 2013, to USD14.6 per tonne in the first half of 2014. The management focused on maximising the utilisation of the Group's own transportation fleet and improving efficiency in its main long-haul transport (UHG-TKH) section. During the period, the long-haul transportation was undertaken fully by the Group's own transportation fleet, without utilization of contractor services. The transportation cost in the long haul section has been successfully reduced by 18.3% from USD8.2 per tonne in the first half of 2013 to USD6.7 per tonne in the first half of 2014.

For the short-haul (TKH-GM) section, where the Group utilised fleet from third party contractors, the Group's transportation costs were reduced by 16.0% from USD9.4 per tonne in the first half of 2013 to USD7.9 per tonne in the first half of 2014 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 2014, the Group's logistics cost was approximately USD7.2 million (first half of 2013: USD10.7 million). The reduction is partly due to the sale of the UHG-GS paved road, meaning the costs for paved road operations, maintenance and amortization costs are now non-existent, and replaced by fixed toll fee.

The site administration cost is primarily related to the site support facilities such as the airstrip operations, and also overall supervision and joint management of the Group's mining, processing, transportation and logistics operations at UHG and BN mines, both located in the South Gobi desert. For the six months ended 30 June 2014, the Group's site administration cost was approximately USD8.1 million, compared to USD4.5 million in the first half of 2013. The Group is implementing policies to shift the employees' work place and to promote relocation to the site base for the purpose of increasing operational efficiency at site.

For the six months ended 30 June 2014, total transportation loss was around USD1.5 million, compared to USD0.3 million in the first half of 2013. For the six months ended 30 June 2014, the Group recorded unrealized inventory gain of USD2.8 million for ROM coal stockpile at UHG compared to unrealised loss of USD5.6 million recorded in the first half of 2013. 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.

Table 11. Transportation and stockpile gains and losses by amounts and volumes:

	Six months ended 30 June			
	2014	2013	**2014**	2013
	USD'000	*USD'000*	***tonnes'000***	*tonnes'000*
Transportation and stockpile (gains)/losses	**(1,279)**	5,859	**(59.0)**	201.7
Transportation (gain)/loss	**1,521**	288	**25.4**	(5.2)
Washed coal	**1,521**	283	**25.4**	(5.3)
Raw coal	**–**	5	**–**	0.1
Stockpile (gain)/loss	**(2,800)**	5,571	**(84.4)**	206.9
Washed coal	**(789)**	2,804	**13.3**	52.9
Raw coal	**(2,011)**	2,767	**(97.7)**	154.0

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. On 21 March 2014, the GoM adopted Methodologies on (i) the Determination and Calculation of Minerals Royalty, and (ii) the Determination of Sales Value of Coal Sold to Foreign Markets for the Calculation of the Royalty. On the same day, it also made an amendment to the GoM Resolution No. 88 of 2007, which defines sources of the mineral product pricing, and ruled to use contract prices for coal sold abroad for the calculation of the royalty. These resolutions became effective from 1 April 2014 but were renewed and amended on 4 July 2014, according to which, contract prices for the calculation of royalty on coal exported are to be used until 1 January 2015. Therefore, during the first quarter of 2014, royalty was calculated based on the monthly reference price determined by the Ministry of Mining of Mongolia at the time. Subsequently, starting from 1 April 2014, royalty was calculated based on the contract prices. The Group's effective royalty rate for the six months ended 30 June 2014 was around 5.1% for the coal exported from Mongolia based on the customs clearance documents (first half of 2013: 6.4%).

Gross Profit and Gross Profit Margin

The Group's gross profit for the six months ended 30 June 2014 was approximately USD20.5 million, representing a decrease of approximately USD7.8 million or 27.7% from the gross profit of approximately USD28.3 million recorded for the six months ended 30 June 2013. The decrease of gross profit was mainly driven by a decrease of ASP for coking coal products supplied by the Group under the challenging market conditions, as coking coal pricing was continuing to be affected by global supply and demand imbalances.

However, for the six months ended 30 June 2014, the gross profit margin was approximately 10.6%, remaining at comparable level with approximately 11.4% reported for the six months ended 30 June 2013.

Selling and Distribution Costs

The Group's selling and distribution costs of USD25.0 million for the six months ended 30 June 2014 (six months ended 30 June 2013: nil) are associated with the new inland China market penetration strategy and include expenses relating to fees and charges incurred for importing coal into China, logistics, transportation, governmental fees and charges and fixed agent fees.

General and Administrative Expenses

The Group's general and administrative expenses relate primarily to staff costs, share option expenses, allowance for doubtful debts, consultancy and professional fees, depreciation and amortization of office equipment and other expenses.

The following table presents, for the periods indicated, individual general and administrative expenses in terms of amount and as a percentage of the Group's total administrative expenses (Table 12):

Table 12. General and Administrative expenses:

	Six months ended 30 June			
	2014		2013	
	USD'000	*%*	*USD'000*	*%*
Staff costs	**2,822**	**17.3**	4,698	26.4
Consultancy and professional fees	**1,445**	**8.8**	1,805	10.2
Depreciation and amortization	**1,211**	**7.4**	1,255	7.1
Allowance for doubtful debts	**5,000**	**30.6**	2,275	12.8
Share option	**1,666**	**10.2**	2,121	11.9
Others	**4,199**	**25.7**	5,610	31.6
Total	**16,343**	**100.0**	17,764	100.0

For the six months ended 30 June 2014, the Group's general and administrative expenses decreased by approximately USD1.4 million or 8.0% from USD17.8 million for the six months ended 30 June 2013 to approximately USD16.3 million for the six months ended 30 June 2014.

The Group's general and administrative expenses for the six months ended 30 June 2014 by each category have all decreased compared to the six months ended 30 June 2013, except for the allowance for doubtful debts, which is a general provision and increased in line with the increase of overall trade receivables balance as at 30 June 2014.

Net Finance Cost

Net finance cost for the six months ended 30 June 2014 was approximately USD45.8 million (30 June 2013: net finance cost of USD38.6 million). Net finance cost for the six months ended 30 June 2014 was primarily due to (i) interest expense and other related expense of the credit facilities, and (ii) USD11.6 million foreign exchange loss due to depreciation of MNT against USD.

Income Tax Expenses

The Group, on a net basis considering current taxation and deferred taxation, did not have income tax expense for the six months ended 30 June 2014 due to the loss incurred during the period, but has income tax income of USD1.6 million due to the recognition of deferred tax asset. The Group's income tax expense for the six months ended 30 June 2013 was approximately USD1.8 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 2014 amounted to approximately USD28.0 million (30 June 2013: loss of USD25.2 million). Major contributing factor of the Group's net loss position is decrease of ASP of coking coal products due to challenging market conditions in China, as coking coal pricing was continuing to be affected by global supply and demand imbalances.

Liquidity and Capital Resources

In light of market volatility, the Group took strict approach on cash management. The Company took several measures to enhance the Group's liquidity position. Notably, during the first half of 2014, the Group refinanced and extended the maturity of the outstanding BNP Paribas facilities of USD130 million and increased the size by additional USD20 million to USD150 million. The Group also refinanced and extended the maturity of short-term loans of USD40 million into a revolving credit facility.

For the six months ended 30 June 2014, the Company's cash needs had been primarily related to working capital requirements and debt repayments.

The Company's cash resources were funded mainly by proceeds of UD90.3 million from sale of UHG-GS paved road and additional fund of USD20 million from the BNP and ICBC Facility as defined below.

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

Table 13. Combined cash flows:

	For the six months ended 30 June	
	2014	2013
	USD'000	*USD'000*
Net cash (used in)/generated from operating activities	**(29,125)**	31,619
Net cash generated from investing activities	**49,422**	60,312
Net cash used in financing activities	**(29,113)**	(112,540)
Net decrease in cash and cash equivalents	**(8,816)**	(20,609)
Cash and cash equivalents at the beginning of the period	**26,535**	44,322
Effect of foreign exchange rate changes	**(196)**	(119)
Time deposits with original maturity over three months	**50,000**	105,000
Cash at bank and in hand at the end of the period	**67,523**	128,594

Note: USD49.4 million generated from investing activities includes USD6.6 million incurred for acquisition of property, plant and equipment and construction in progress, USD35.8 million incurred for payments for deferred stripping activity and USD90.3 million generated from UHG-GS paved road disposal.

The gearing ratio (calculated as total bank and other borrowings divided by total assets) of the Company as at 30 June 2014 was 48.9% (31 December 2013: 46.7%). All borrowings are in USD. Cash and cash equivalents are held in MNT, USD, RMB, Euro ("**EUR**") and Hong Kong Dollars ("**HKD**"). The Company's policy is to monitor regularly current and expected liquidity requirements and compliance with debt covenants to ensure that the Company maintains sufficient reserves of cash to meet its liquidity requirements in the short and long term.

Indebtedness

As of 30 June 2014, the Company had USD893.2 million in outstanding short-term and long-term borrowings, including indebtedness incurred under (i) USD600 million Senior Notes (the "**Senior Notes**"), (ii) USD150 million facility with BNP Paribas Singapore Branch and Industrial and Commercial Bank of China Limited (the "**BNP and ICBC Facility**"), (iii) USD180 million facility agreements with European Bank for Reconstruction and Development, FMO – Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. and DEG – Deutsche Investitions-und Entwicklungsgesellschaft mbH (the "**EBRD, FMO and DEG Loan Agreements**"), and (iv) USD40 million revolving credit line from Trade and Development Bank of Mongolia.

The Senior Notes, rated at Caa2 by Moody's Investors Service, Inc. and CCC+ by Standard and Poor's Ratings Services, bear a fixed interest rate of 8.875% per annum payable semiannually. The Senior Notes will mature in March 2017, unless redeemed earlier. As of 30 June 2014, 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 Facilities Agreement for a coal pre-export loan facility of USD150 million with a greenshoe option of up to USD50 million to the Company and fully refinanced the previous BNP Paribas Facility of USD200 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 2014, the outstanding principal amount of such BNP and ICBC Facility was USD150 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 by controlling shareholder of the Company, ceasing to beneficially hold (directly or indirectly) at least 30% of the total issued share capital of the Company.

The EBRD, FMO and DEG Loan Agreements bear interest on a semiannual 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 semiannual installments ending on 15 May 2016, and the USD60 million principal amount of the loan is repayable in two equal installments on 15 May 2015 and 15 May 2016, respectively.

As at 30 June 2014, the outstanding principal amount was USD114.5 million. Under the EBRD, FMO and DEG Loan Agreements, the controlling shareholder of the Company may not cease at any time to own directly or indirectly more shares of the Company than any other shareholder, or at least 30% plus one share of the issued and outstanding shares of the Company, or the Company may not cease to be directly majority owned by entities domiciled in Mongolia.

The Trade and Development Bank of Mongolia loan was originally a short term loan matured in March 2014. Such loan was refinanced into a revolving credit facility and maturity was extended by one year until March 2015. The loan bears interest of 10.0% per annum. As of 30 June 2014, the outstanding principal amount was USD40 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 2014, the Group had approximately USD106.0 million in trade receivables, USD153.7 million in other receivables and USD10.0 million for allowance of doubtful debts. For the year ended 31 December 2013, the Group had USD23.1 million in trade receivables and USD196.6 million in other receivables, as well as USD5.0 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 quantitive 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. As of 30 June 2014, in accordance with the Credit Policy and based on the Credit Committee's assessment, provision of additional USD5.0 million was made for allowance for doubtful debts, in line with the overall increase of trade receivables balance as at 30 June 2014 to USD106.0 million. The increase in trade receivables balance is due to sales revenue to be collected from end-users from inland China sales, where the most commonly used payment method is bank acceptance bills with average maturity of 3-6 months, which is a secured payment method and which can be converted earlier into cash at discounted price by Chinese local banks.

Bank acceptance bills are issued under the title of the sales agent appointed by the Group, and can be discounted by the agent upon receipt of the Company's instruction, and if no such instruction is issued, the acceptance bill is held to maturity. As at 30 June 2014, the Company holds around RMB49.5 million acceptance bills under the agent's title. 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 customers and pertaining to the economic environment in which the customers operate, on an ongoing basis.

With regard to other receivables of USD153.7 million, this amount is mainly related to USD36.3 million VAT and other tax receivables, USD45.9 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 USD30.2 million against its other tax payments and payables to certain suppliers. 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 the reputable banks, which management assessed the credit risk to be insignificant.

Foreign Exchange Risk

During the six months ended 30 June 2014 and 2013, 100% of the revenue and 58.8% and 65.5% 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 2014, 22.1% of the revenues were denominated in USD, with the remaining revenue denominated in RMB. For the six months ended 30 June 2013, 63.8% of the revenues were denominated in USD, with the remaining revenue denominated in RMB.

For the six months ended 30 June 2014, 17.1%, 2.1% and 6.5% of the finance cost, operating expenditures and capital expenditures, respectively, were denominated in USD; while 30.7% of the operating expenditures were denominated in RMB; 9.1% of the finance cost were denominated in currencies other than USD, RMB and MNT; and the remainder was denominated in MNT.

For the six months ended 30 June 2014, approximately 12.8% and 78.0% of operating expenditures and capital expenditures, respectively, were denominated in USD, while 0.3% of capital expenditures were denominated in RMB, and 1.7% of capital expenditures were denominated in currencies other than USD, RMB and MNT, with the remaining denominated in MNT.

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

Cash and cash equivalents denominated in the currency other than the functional currency of the entity to which they relate as at 30 June 2014 and 31 December 2013 amounted to USD63.9 million and USD72.7 million, respectively. Total borrowings denominated in the currency other than the functional currency of the entity to which they relate as at 30 June 2014 and 31 December 2013 amounted to USD154.4 million and USD165.5 million, respectively.

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

Pledge of Assets of the Group

As at 30 June 2014, the Company pledged Energy Resources LLC's ("**ER**") current accounts held with Trade and Development Bank of Mongolia, Khan Bank of Mongolia, Golomt Bank of Mongolia, its Debt Reserve Account for loan repayment, cooperation contract with Inner Mongolia Qinghua Group of China, coal mining agreement with Leighton LLC; engineering, procurement and construction management ("**EPCM**") contract for the CHPP constructed at the UHG site with Sedgman LLC; CHPP modules 1 and 2; UHG Power Plant; and water facilities for the EBRD, FMO and DEG Loan Agreements.

The Company pledged its Collection and Cash Collateral accounts with BNP Paribas, coal sales contracts with Inner Mongolia Risun Coal Industry Co., Ltd, Shenhua Bayannaoer Energy Co., Ltd, and Inner Mongolia Qinghua Group of China, and coal stockpile of ER for the BNP and ICBC Facility.

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

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

The total amount of indebtedness covered with above pledges is USD853.2 million as at 30 June 2014.

Contingent Liabilities

a) As at 30 June 2014, the Company has contingent liability in respect of the consideration adjustments for the Acquisition of BN mine pursuant to the share purchase agreement (the "**Share Purchase Agreement**") entered into by the Company and its subsidiary Mongolian Coal Corporation Limited with Quincunx (BVI) Ltd and Kerry Mining (Mongolia) Limited ("**KMM**") on 31 May 2011 in relation to the acquisition of the entire share capital of QGX Coal Ltd (the "**Acquisition**"), which may arise from the royalty provision. Under the royalty provision, an additional LOM payment of USD6 per tonne may be payable in the event that the actual amount of coal extracted from the BN mine exceeds a specified semiannual production target fixed on the date of the determination of the total reserves in each semiannual period after 1 June 2011 commencing on 1 January and ending on 30 June and commencing on 1 July and ending on 31 December.

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

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

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

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

The total amount of these decisions was MNT7,984,088,870 (equivalent to USD4,372,831), which includes customs and VAT with relevant penalty. The amount claimed against Enrestechnology LLC under the customs officer's first disputing decision is MNT4,630,328,449 (equivalent to USD2,535,999) and the amount claimed under the second disputing decision is MNT3,353,760,421 (equivalent to USD1,836,831).

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

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

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

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

On 30 April 2014, the Capital Administrative Court held court hearing and ruled to fulfill the Company's claim in its entirety, therefore to dismiss two disputing decisions issued by the customs officers. No appeal is filed by the Customs officers up to date.

c) The Group received a claim of MNT57,675,632,400 (approximately USD31,588,547) on 28 March 2013, filed in a district court of Ulaanbaatar by the Lawyer's Association for Environment ("**LAE**") regarding allegations against the Group in relation to possible damages to the environment due to its coal hauling operation.

   On 8 August 2013, the first instance district court ruled that the Group has to pay MNT52,235,485,740 (approximately USD28,609,016) in relation with the claim issued by the LAE on 28 March 2013 regarding allegations in relation to possible damages to the environment due to coal hauling operation.

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

   On 30 June 2014, the rehearing of the first instance court was held and the court ruled to dismiss court proceedings and close the case since the claimant LAE did not appear at the court hearing to support its claim, and failed to pay stamp duty. The case is closed; however, the claimant is not prohibited to re-submit a new claim.

Financial Instruments

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

Under the Share Option Scheme, the Company granted two batches of Share Options to its directors and employees. On 12 October 2011, the Company offered 3,000,000 and 34,500,000 Share Options to directors and employees respectively, at the exercise price of HKD6.66 and 3,000,000 and 32,200,000 Share Options were accepted by directors and employees respectively. On 28 November 2012, the Company granted another 5,000,000 and 17,750,000 Share Options to directors and employees respectively, at the exercise price of HKD3.92.

The fair value of services received in return for Share Options granted is measured with reference to the fair value of Share Options granted. For the six months ended 30 June 2014, USD1.7 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 2014 was USD0.1 million, and was presented as a derivative financial instrument. The liability component was initially recognised at an amortised cost of USD591.7 million after taking into account USD13.2 million as attributable costs.

Capital Commitments and Capital Expenditures

As at 30 June 2014, the capital commitments outstanding on the respective dates on the balance sheet were as follows:

Table 14. Capital commitments:

	As at 30 June 2014 *USD'000*	As at 31 December 2013 *USD'000*
Contracted for	**2,041**	5,554
Authorized but not contracted for	**277**	681
Total	**2,318**	6,235

Table 15. The Group's historical capital expenditure for the periods indicated:

	Six months ended 30 June 2014 *USD'000*	Year ended 31 December 2013 *USD'000*
CHPP	**3,264**	15,293
Water supply facility	**4,506**	12,552
Power plant	**–**	1,821
Property (camp, airport and workshop)	**–**	6,769
Trucks and equipment	**314**	2,544
Road	**–**	14
Others	**1,213**	2,897
Total	**9,297**	41,890

Operating Lease Commitments

As at 30 June 2014, the Company had contracted obligations consisting of operating leases which totaled approximately USD2.2 million with USD2.0 million due within one year and USD0.2 million due between two and five years. Lease terms range from one to five years, with fixed rentals.

Significant Investment Held

As at 30 June 2014, the Company did not hold any significant investments. The Company has no future plans for material investment or capital assets in the coming year.

Material Acquisitions and Disposal of Subsidiaries and Associated Companies

For the six months ended 30 June 2014, the Company did not have any material acquisitions and disposals of subsidiaries and associated companies.

Purchase, Sale or Redemption of the Company's Listed Securities

For the six months ended 30 June 2014, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

Dividends

The Board does not recommend the payment of dividend in respect of the six months ended 30 June 2014 (dividend for the six months ended 30 June 2013: nil).

Employees

As at 30 June 2014, the number of employees of the Group was 2,128 compared with 2,376 employees as at 30 June 2013.

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.

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 2014.

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 of 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 and Corporate Governance Report (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 ("**AGM**") 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 2014 AGM due to his engagement in discussions on the development of cross border freight railway 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, Ms. Enkhtuvshin Gombo, 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 2014.

Publication of the 2014 Unaudited Consolidated Interim Results and 2014 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) and the Company's website (www.mmc.mn), and the 2014 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, 18 August 2014

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, Ms. Enkhtuvshin Gombo, 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.