



# MONGOLIAN MINING CORPORATION

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



**INTERIM  
REPORT  
2017**

# Contents

Company Profile	3
Mission, Vision and Values	4
Corporate Information	6
Group Structure	8
Management Discussion and Analysis	9
Corporate Social Responsibility	36
Disclosure of Information	39
Independent Review Report	46
Consolidated Statement of Profit or Loss – Unaudited	48
Consolidated Statement of Profit or Loss and Other Comprehensive Income – Unaudited	49
Consolidated Statement of Financial Position – Unaudited	50
Consolidated Statement of Changes in Equity – Unaudited	52
Condensed Consolidated Cash Flow Statement – Unaudited	53
Notes to the Unaudited Interim Financial Report	54
Glossary and Technical Terms	75





# Company Profile

Mongolian Mining Corporation ("**MMC**" or the "**Company**" and together with its subsidiaries, the "**Group**") (Stock Code: 975) is the largest producer and exporter of high-quality washed hard coking coal ("**HCC**") in Mongolia. MMC owns and operates the Ukhaa Khudag ("**UHG**") and the Baruun Naran ("**BN**") open-pit coking coal mines, both located in the Umnugobi aimag (South Gobi province), Mongolia.

# Mission, Vision and Values



## OUR MISSION:

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

## OUR VISION:

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

## OUR VALUES AND OBJECTIVES:

WE RECOGNISE THAT PEOPLE  
ARE OUR KEY ASSET.  
THEREFORE:

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

WE BELIEVE THAT MODERN AND  
COST-EFFICIENT TECHNOLOGY WILL  
BRING SUSTAINABLE GROWTH AND  
PROSPERITY.  
THEREFORE:

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

WE ARE COMMITTED TO  
ENVIRONMENTAL SUSTAINABILITY IN  
OUR OPERATIONS.  
THEREFORE:

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- MMC strives to minimise the impact of our operations on the environment
- MMC complies with all required environmental standards, and take further measures to prevent and mitigate potential environmental impact

WE ARE COMMITTED TO SOCIALLY  
RESPONSIBLE MINING PRACTICES.  
THEREFORE:

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- MMC strives to build mutually beneficial relationships with local communities and officials
- MMC contributes to social development through community development initiatives and other programs

WE ARE COMMITTED TO  
TRANSPARENT AND FAIR BUSINESS  
PRACTICES.  
THEREFORE:

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- MMC fosters mutually beneficial relationships with our suppliers and contractors
- MMC develops, maintains and values long-term relationships with our customers

WE BELIEVE SOUND CORPORATE  
GOVERNANCE IS A CORNERSTONE  
OF MMC'S MANAGEMENT AND  
OPERATIONS.  
THEREFORE:

- MMC complies with the best international practices
- MMC continues to cultivate a culture of corporate governance as an integral part of its on-going organisational development



# Corporate Information

## BOARD OF DIRECTORS

### **Executive Directors**

Odjargal Jambaljamts (*Chairman*)

Battsengel Gotov (*Chief Executive Officer*)

### **Non-Executive Directors**

Oyungerel Janchiv

Od Jambaljamts

Gankhuyag Adilbish

### **Independent Non-Executive Directors**

Khashchuluun Chuluundorj

Unenbat Jigjid

Chan Tze Ching, Ignatius

## REGISTERED OFFICE

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P.O. Box 2681

Grand Cayman, KY1-1111

Cayman Islands

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Level 54, Hopewell Centre

183 Queen's Road East

Hong Kong

## HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN MONGOLIA

16th Floor, Central Tower

Sukhbaatar District

Ulaanbaatar 14200

Mongolia

## COMPANY SECRETARY

Ng Sin Yee, Clare

## INDEPENDENT AUDITOR

KPMG

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

## AUTHORISED REPRESENTATIVES

Battsengel Gotov

Ng Sin Yee, Clare

## LEGAL ADVISERS

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Sukhbaatar District

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Mongolia

Conyers Dill & Pearman

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8 Connaught Place

Central, Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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Grand Cayman, KY1-1110  
Cayman Islands

## HONG KONG SHARE REGISTRAR

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Shops 1712-1716, 17th Floor  
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## COMPANY WEBSITE

[www.mmc.mn](http://www.mmc.mn)

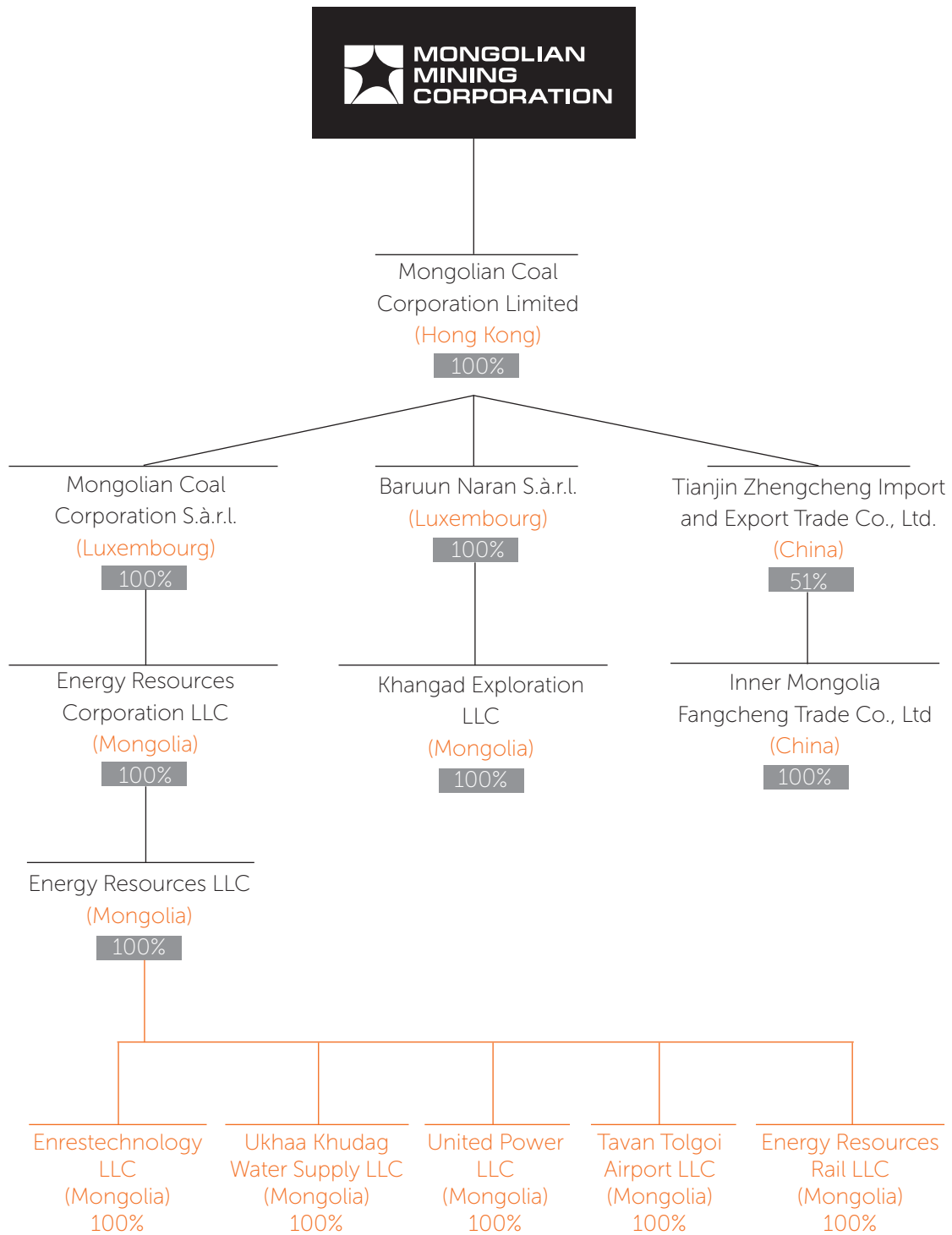
## STOCK CODE

975





# Group Structure (as at 30 June 2017)



# Management Discussion and Analysis

## INDUSTRY OVERVIEW

The economy of the People's Republic of China ("**China**" or "**PRC**") expanded at an annual rate of 6.9% in the first and second quarters of 2017, beating the government's target due to the unexpected strength and growth in the property market which kept growth humming. This represents an uptick on last year's 6.7% expansion and if the trend continues, 2017 would be the first year of China's growth rate accelerating on the preceding since 2010.

The immovable property and housing investment grew by 8.5% in the first half of 2017 compared with the same period of the previous year. Also, factory output grew by 7.6% in June from a year earlier with foreign trade providing boost to the manufacturing sector, after contracting 7.7% on an annual basis last year, and exports grew by 8.5% in the first half of 2017. Increase in immovable property and housing investment, and the growth in the manufacturing sector, triggered steel productions and hence increased the demand in steel making raw materials, such as coking coal.

With improved demand and increased pricing for steel products, China's crude steel production reached 419.7 million tonnes ("**Mt**") in the first half of 2017 according to the data released by the World Steel Association ("**WSA**"), an increase of 4.6% from the same period in 2016. However, China continued to cut its excess steel production capacity in line with its

policy to curb industrial overcapacity and shut over 600 low-quality steel producers with a total capacity of 120 million tonnes per annum ("**Mtpa**") in the first half of 2017 according to the information provided by the National Development and Reform Commission ("**NDRC**") and Ministry of Industry and Information Technology ("**MIIT**").

It was estimated by China Coal Resource ("**CCR**") that the domestic steel consumption in China has increased by 10.6%, from 338.3 Mt in the first half of 2016 to 374.1 Mt in the first half of 2017. In the meantime, Chinese steel export decreased to 41.0 Mt, representing a 28.4% decrease in the first half of 2017, due to the improved demand in the domestic market as well as certain protectionist measures announced by the United States and the European Union.

Elevated steel production and higher profit margins earned by steel producers have supported the demand and pricing for steel making ingredients such as iron ore and coking coal.

According to the National Bureau of Statistics ("**NBS**"), coke production of China increased by 2.5%, on a year-on-year basis in the first half of 2017, up to 221.1 Mt. According to CCR estimates, the coke consumption increased by 3.6% to 226.8 Mt year-on-year. In a similar pattern to its steel export, coke export from China decreased to 4.1 Mt in the first half of 2017, representing a 13.7% year-on-year decrease.



# Management Discussion and Analysis

According to CCR, the consumption of coking coal in China reached 259.4 Mt in the first half of 2017, representing a slight 0.2% increase from the same period in the previous year, whereas the domestic coking coal production also increased by 2.1% to 220.2 Mt as a result of improved demand.

Chinese import of coking coal increased by 33.3% year-on-year to 36.0 Mt in the first half of 2017, where Australia, the largest coking coal supplier to China, increased its volume to 14.9 Mt or by 12.9% year-on-year, followed by Mongolia which increased its volume by 61.1% year-on-year to 14.5 Mt in the first half of 2017. Australia and Mongolia continued to dominate the volumes of coking coal imported to China with a combined market share reaching 81.7% of China's total coking coal import volumes compared to 82.3% reported for the first half of 2016.

According to CCR, coal imports through Ganqimaodu ("**GM**") border crossing, where the Group exports its products, reached a historical high of 10.1 Mt in the first half of 2017 which is an increase by 140% year-on-year. Similarly, according to the National Statistics Office of Mongolia, Mongolian coal export volume in the same period reached 19.1 Mt, which is a record high for semi-annual volume exported from Mongolia to date.

The increase in Mongolian coking coal market share in the first half of 2017 has been attributable to the increased demand for imported coking coal due to more stringent environmental and safety regulatory limitations imposed on domestic producers in China, major logistics disruption for Australian coking coal supply caused by cyclone Debbie in the second quarter of 2017, and also sanctions imposed by the United Nations on North Korea which virtually stopped coal imports from this country to China.

Note: Due to rounding, discrepancy may exist in year-on-year percentage change.

## OPERATING ENVIRONMENT

### Legal Framework

#### *Mining and Exploration related Legislation*

On 22 June 2017, Energy Resources LLC ("**ER**"), a wholly-owned subsidiary of the Group, has entered into a Community Cooperation Agreement ("**CCA**"). In accordance with Article 42.1 of the Minerals Law (2006), the CCA has been entered by ER and local authorities representing Umnugobi aimag (province) and Tsogttsetsii soum (county) in line with the template adopted by the Government of Mongolia ("**GoM**") which issued Resolution No. 179 dated 28 March 2016. The CCA outlines areas in relation to the cooperation concerning environmental protection, infrastructure development and employment creation during the tenure of validity for UHG mining license granted to ER. The Group does not expect any impact on its financial position due to the entering of the CCA, because it provides a formalized legal framework for the Group's previously adopted policy to implement various programs with focus on community development.

#### *Labour Relations, Occupational Health and Safety related Legislation*

Effective from 1 January 2017, an increased rate of MNT240,000 of the minimum monthly wage rate has been applied pursuant to Resolution No. 4 of the Trilateral National Committee for Labour and Social Agreement (Confederation of Mongolian Trade Union, Mongolian Employers Federation and the GoM) dated 20 April 2016. The Group does not expect any impact on its financial position from this new requirement, because its existing internal remuneration policies has sufficiently covered the adopted minimum monthly wage requirements.

### ***Taxation, Accounting and Financial Reporting related Legislation***

On 10 November 2016, the Law on Social Insurance (1994) was amended and the mandatory contribution rate of the social benefit insurance to be payable by employers in the name of its employees was increased from 0.8% to 1.0% of the employee's gross pay, while the maximum contribution rate for industrial accidents and occupational diseases also payable by the employers in the name of its employees was decreased from 3.0% to 2.8%.

These changes came into effect from 1 January 2017 and they were aimed to benefit employees by changing the composition of the social insurance's sub-contribution rates. However, equal level of increase and decrease in the above-mentioned sub-contribution rates to be payable by the employers in the name of employees who are working, except employees on maternity leave, will not cause any change in the overall total rate of social insurance contribution to be paid by the Group. Therefore, no material impact is expected on the Group's operational costs.

On 2 February 2017, the Law on Corporate Income Tax (2006) was amended to reduce 90% of the income tax imposable on small and medium enterprises ("**SME**"), those operating in food production, clothing and textiles, production of construction materials, agricultural and livestock industries (including its supplementary operations) with an income of less than MNT1.5 billion per year.

The scheme will not have a direct impact on the Group, but potential SME vendors and suppliers of the Group may benefit from such change.

On 14 April 2017, the Law on Personal Income Tax (2006), Law on Social Insurance (1994) and Law on Pensions and Benefits Distributable from the Social Insurance Fund (1994) were amended to introduce changes in the personal income tax, social insurance contribution and retirement age. These changes will become effective from 1 January 2018.

Pursuant to the amendments made to the Law on Personal Income Tax (2006), the current 10% flat rate of the Mongolian residents' personal income tax will be varied from 10% to 25% depending on the income level. Employers are not responsible for covering the above tax rate increase for Mongolian residents. For non-residents' personal income tax, the base rate of 10% has been increased to 20% and is to be applied for income generated within the territory of Mongolia and will be withheld and reported to the tax authority by the revenue providing party, such as the legal entity in case of labour contract engagement.

Pursuant to the amendments made to the Law on Social Insurance (1994), the rate of pension purpose component of the social insurance contribution payable by each employee and employer has been increased from 7% to 9.5% of the salary income. Accordingly, based on the Group's effective salary rate, starting from 1 January 2018, the cost of social insurance contribution amount to be paid by the Group will increase by 12.0% or by MNT52,605 monthly per employee in average.

Pursuant to the amendments made to the Law on Pensions and Benefits Distributable from the Social Insurance Fund (1994), the statutory retirement ages of both men and women have increased by 5 years. As such, effective from 1 January 2018, the retirement ages for men and women will increase to 65 years and 60 years of age respectively. This change will not have any direct impact nor contradiction with the Group's employment policy.

On 18 July 2017, by the Government Resolution No. 207, the rate of excise duty for imported diesel through Sukhbaatar, Zamiin-Uud and Altanbulag border ports increased from MNT70,000 to MNT180,000, and the excise duty for imported gasoline has been increased to MNT160,000. Due to such change starting from 20 July 2017, diesel prices will increase by approximately MNT105 per liter. However, the Group's costs related to fuel consumed by the Group's operations in Mongolia will remain predominately linked to the fluctuations in imported fuel price which is subject to international oil price movements.



# Management Discussion and Analysis

## Political Environment

On 26 June 2017, the fifth presidential election was held in Mongolia, none of the three candidates, Mr. Enkhbold Miyegombo as a nominee from the Mongolian People's Party ("**MPP**"), Mr. Battulga Khaltmaa as a nominee from the Democratic Party ("**DP**") and Mr. Ganbaatar Sainkhoo as a nominee from the Mongolian People's Revolutionary Party ("**MPRP**"), received the required majority of the votes casted which led to a second round of election between the two candidates with the most votes. In the result of the second round of election held on 7 July 2017 between Mr. Battulga Khaltmaa and Mr. Enkhbold Miyegombo, Mr. Battulga Khaltmaa won by receiving 50.61% of the votes casted compared to 41.16% of the votes received by Mr. Enkhbold Miyegombo. The inauguration of the newly elected President was held on 10 July 2017.

Having the Parliament and the Government fully controlled by MPP and the President position held by the nominee originating from DP, which is currently in opposition in the Parliament, may cause contradicting views on the political issues or matters, but there can be no assurances that it will have any negative or positive impact on the operations of the Company.

## BUSINESS OVERVIEW

### Coal Resources and Exploration Activities

#### UHG deposit

The UHG deposit located within Mining License MV-11952 ("**UHG mining license**"), which was granted to the Group for a period of 30 years from 29 August 2006. The UHG mining license covers 2,960 hectares, and is extendable twice by 20-year periods. Since acquiring the UHG mining license, the Group has prepared three JORC compliant Coal Resource estimates.

The most recent Coal Resource estimate has been made in accordance with the requirement of the JORC Code (2012), including in compliance with the most recent Australian Guidelines for the Estimation and Classification of Coal Resources (2014). Compared to the previous JORC Coal Resource update stated as at 30 November 2015, the last update stated as at 31 December 2016 was made only on the basis of revised surface topography, to account for depletion as a result of mining activity between 1 December 2015 and 31 December 2016. No further exploration data was incorporated.

Exploration activities conducted in the process of preparing the three preceding JORC compliant Coal Resource estimates and used by the Group to prepare the structural and coal quality models supporting the latest Coal Resource estimate as at 31 December 2016, included:

- 1,556 individual boreholes drilled for 191,275 metres ("**m**"), including 104,369m of HQ-3 (63.1 millimetres ("**mm**") core, 96.0mm hole diameter) and 86,906m of 122mm diameter open holes drilling;
- 37,548 individual analytical samples collected and analysed;
- 71 kilometres ("**km**") of high resolution 2D seismic survey in-field measurements, collected by Polaris Seismic International Ltd ("**Polaris**") and analysed by Velseis Processing Pty Ltd ("**Velseis**"); and
- results from large-diameter, bulk-sample drilling samples analysed at the ALS Group ("**ALS**") laboratories in Ulaanbaatar.

JORC compliant Coal Resource estimate figures reported are based upon an in situ density, at an as-received moisture basis, are summarised in Table 1. According to official mine survey measurement, production activity between 31 December 2016 to 30 June 2017 has depleted the stated JORC compliant Coal Resource by approximately 4.2 Mt. No further exploration activities have been conducted within the UHG mining license area in 2017.

Internal peer audit of these latest structural and coal quality models was conducted by Mr. Gary Ballantine, employed by the Group at that time as Executive General Manager of Exploration and Geology. This

confirmed that the Group's work to update the UHG geological model, and thus the Coal Resource estimate for the UHG mining license area, was in compliance with requirements of the JORC Code (2012).

With updated surface topography being the only new information in preparation of the updated JORC Coal Resource estimate, and all other information and methodology remaining consistent with the previous JORC Coal Resource estimate, Appendix I of the Group's 2015 Annual Report can be referred to for the detailed information required to be presented under the JORC Code (2012) upon release of a JORC (2012) Coal Resource estimate.

Table 1. UHG mining license JORC (2012) compliant Coal Resource estimate, by depth and category, as at 31 December 2016 (Notes):

Total Coal Resource Depth limit from topographic surface	Resource Category (Mt)			Total (M+I)	Total (M+I+I)
	Measured	Indicated	Inferred		
Subcrop to Base Horizon of Weathering Elevation ("BHWE")	2	3	5	5	10
BHWE to 100m	70	23	17	93	110
From 100m to 200m	92	48	26	140	166
From 200m to 300m	91	64	21	155	176
From 300m to 400m	57	35	16	92	108
Below 400m	40	44	30	84	114
Sub-Total above 300m	255	138	69	393	462
Sub-Total below 300m	97	79	45	176	222
<b>Total</b>	<b>352</b>	<b>217</b>	<b>115</b>	<b>569</b>	<b>684</b>
<b>Total (Rounded)</b>	<b>350</b>	<b>220</b>	<b>110</b>	<b>570</b>	<b>680</b>

Notes:

- (i) Technical information in the UHG Coal Resource estimation report has been compiled by Mr. Lkhagva-Ochir Said, General Manager of Technical Services, Mongolian Mining Corporation. Mr. Said is a member of the Australasian Institute of Mining and Metallurgy (Member #316005) and has over 9 years of experience relevant to the style and type of coal deposit under consideration and to the activity which is being undertaken to qualify as a Competent Person as defined by the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012). Mr. Said consents to the inclusion in the release of the matters based on this information in the form and context in which it appears. The estimates of the Coal Resource set out in Table 1 presented in this interim report are considered to be a true reflection of the UHG Coal Resource as at 31 December 2016, and have been carried out in accordance with the principles and guidelines of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012).



# Management Discussion and Analysis

- (ii) Mr. Gary Ballantine was employed by the Group as Executive General Manager for Exploration and Geology at that time. Mr. Ballantine is a member of the Australasian Institute of Mining and Metallurgy (Member #109105) and has over 26 years of experience relevant to the style and type of coal deposit under consideration and to the activity which is being undertaken to qualify as a Competent Person as defined by the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012).
- (iii) Due to rounding, discrepancy may exist between sub-totals and totals. Rounding rules refer to Clause 25 of the JORC Code (2012).

## **BN deposit**

The BN deposit is covered by two mining licenses. Mining License 14493A ("**BN mining license**") of 4,482 hectares area was obtained through the acquisition of Baruun Naran Limited, formerly known as QGX Coal Limited, on 1 June 2011, and is effective for 30 years from 1 December 2008. Mining License MV-017336 ("**THG mining license**") of 8,340 hectares area was granted to the Group on 24 June 2013, effective for 30 years. Both licenses are extendable twice, by 20-year periods.

During 2015, the Group's geological team updated the JORC (2012) Coal Resource estimations as at 30 June 2015 for the BN and THG mining licenses. The estimation process applied more stringent requirements under the Australian Guidelines for the Estimation and Classification of Coal Resources (2014), as compared to the previous JORC (2012) Coal Resource estimates prepared by McElroy Bryan Geological Services Pty Ltd ("**MBGS**"), stated as of 30 June 2012 and 30 April 2013 for the BN mining license and the THG mining license respectively.

No further drilling was conducted at the BN deposit since 2016, however the updated JORC (2012) Coal Resource stated as at 30 June 2015 did incorporate additional exploration data gained from the exploration drilling program conducted in 2014. The following information provided the basis for updating the structural and coal quality geological models underpinning the updated JORC (2012) Coal Resource statement:

- total of 92 exploration boreholes at BN, with a total of 28,540m drilled, of which 14,780m were HQ-3, 9,640m PQ-3 (83.0mm core, 122.6mm hole diameter) and 4,120m were 122mm diameter open boreholes;
- total of 32 exploration boreholes at Tsaikhar Khudag ("**THG**"), with a total of 9,970m drilling at THG, of which 5,900m were HQ-3, 3,610m PQ-3 and 460m were 122mm open boreholes;
- total of 8,720 (BN) and 3,824 (THG) coal samples collected and analysed; and
- total of 75 km of 2D seismic survey captured by Polaris over the BN mining license, and analysed by Velseis.

Internal peer review was conducted by Mr. Gary Ballantine, the then Executive General Manager of Exploration and Geology. External peer review was provided by Mr. Todd Sercombe of GasCoal Pty Ltd. Mr. Brett Larkin from Geoscheck Pty Ltd was also involved in external peer review, specifically with regard to the geostatistical analysis required to be prepared under the Australian Guidelines for the Estimation and Classification of Coal Resources (2014). These peer reviews confirmed compliance of the Group's work to update the Coal Resource estimations in compliance with requirements of the JORC Code (2012).

Summary of the updated JORC (2012) compliant Coal Resources for BN and THG mining license areas are shown in Table 2 and Table 3 respectively. The figures in these tables represent calculation based upon in situ density, at an assumed 5% moisture basis. With no mining activity occurred since the latest statement date, there has been no depletion of the stated Coal Resources.

Table 2. BN mining license JORC (2012) compliant Coal Resource estimate, by depth and category, as at 30 June 2015 (Notes):

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





# Management Discussion and Analysis

Table 3. THG mining license JORC (2012) compliant Coal Resource estimate, by depth and category, as at 30 June 2015 (Notes):

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

Notes:

- (i) Technical information in the BN deposit Coal Resource estimation report has been compiled by Mr. Lkhagva-Ochir Said, General Manager of Technical Services, Mongolian Mining Corporation. Mr. Said is a member of the Australasian Institute of Mining and Metallurgy (Member #316005) and has over 9 years of experience relevant to the style and type of coal deposit under consideration and to the activity which is being undertaken to qualify as a Competent Person as defined by the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012). Mr. Said consents to the inclusion in the release of the matters based on this information in the form and context in which it appears. The estimates of the Coal Resource set out in Table 2 and Table 3 presented in this interim report are considered to be a true reflection of the BN deposit Coal Resource as at 30 June 2015, and have been carried out in accordance with the principles and guidelines of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012).
- (ii) Mr. Gary Ballantine was employed by the Group as Executive General Manager for Exploration and Geology at that time. Mr. Ballantine is a member of the Australasian Institute of Mining and Metallurgy (Member #109105) and has over 26 years of experience relevant to the style and type of coal deposit under consideration and to the activity which is being undertaken to qualify as a Competent Person as defined by the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012).
- (iii) Due to rounding, discrepancy may exist between sub-totals and totals. Rounding rules refer to Clause 25 of the JORC Code (2012).

## Coal Reserves

### UHG deposit

During 2015, the Group engaged RungePincockMinarco Limited, now known as RPM Advisory Services Pty Ltd. ("**RPM**"), to prepare an updated JORC (2012) Coal Reserve statement as at 30 November 2015 for the UHG deposit. Much of the work conducted represented an update to work previously completed by RPM in 2013 to produce the previous JORC (2012) Coal Reserve statement as at 31 December 2012. This update, however, focused solely on UHG stand-alone operation, given the continued non-operational status of the BN mine.

The process used was the same as that used to prepare the previous JORC (2012) Coal Reserve estimate, with the updated JORC (2012) Coal Reserve estimate again based on open cut, multi seam, truck and excavator mining methods. Pit optimization software was used to generate a series of nested pit shells corresponding to varying revenue factors, simulating incrementally different economic scenarios as impacted by mining cost or coal price variance. The pit algorithms used included for incorporation of:

- geotechnical constraints, including limitation of overall slope angles within the pit by sector, ex-pit dump offset from life-of-mine ("**LOM**") pit shell crest and maximum pit depth, with updates on basis of research and analyses made since timing of the previous JORC (2012) Coal Reserve estimate, as provided by Mr. John Latilla at-that-time employed by AMC Consultants Pty Ltd ("**AMC**");
- washability curves on seam ply basis, as prepared previously by Mr. John Trygstad of Norwest Corporation ("**Norwest**") for inclusion in the previous JORC (2012) Coal Reserve estimate, to individual coal seams based upon propensity for processing into coking and/or thermal products, with update made to reassign

portion of Seam 0B from thermal to coking coal production, based upon results observed during production trials in 2015;

- updated assumptions with regard to (i) coal losses and dilution, and (ii) manual re-assignment of the proportion of coal mined from coking to thermal product streams, based upon survey reconciliation of actual production performance at UHG, as well as allowing for unadjusted presentation of Proved and Probable categorisation of Coal Reserves as per JORC Code (2012) specification;
- updated cost input assumptions, derived from recent historical operating performance at UHG mine on the basis of sustainable cost reductions made in response to difficult market conditions, and as forecast based upon negotiated reductions in cost for mining and blasting contractor services; and
- updated revenue input assumptions, derived from an updated market study commissioned from Shanxi Fenwei Energy Consulting Co. Ltd ("**Shanxi Fenwei**") in October 2015, which provided for medium to long term forecasting of expected Free-on-Transport ("**FOT**") pricing at UHG mine for hard coking, semi-soft coking and thermal coal products planned for production.

Following pit optimisation works to determine the economic pit limits, practical pit designs were then created, and mineable in situ coal within the pit shell was converted to run-of-mine ("**ROM**") and product coal quantities. Raw coal tonnages resulting from the updated statement of the JORC (2012) Coal Reserve estimate for the UHG deposit as at 30 November 2015 based upon an as-received basis with 5% total moisture, are shown in Table 4. Between 1 December 2015 and 30 June 2017, the stated Coal Reserve has been depleted by approximately 7.7 Mt as result of mining activity.



# Management Discussion and Analysis

Table 4. UHG mining license JORC (2012) Coal Reserve estimate, as at 30 November 2015 (Notes):

ROM Coal Reserve Coal Type	Reserve Category (Mt)		Total
	Proved	Probable	
Coking	119	52	171
Thermal	52	4	55
<b>Total</b>	<b>171</b>	<b>55</b>	<b>226</b>

Notes:

- (i) The estimate of Coal Reserve presented in Table 4 has been carried out in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012). Technical information in the UHG Coal Reserve estimation report 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 JORC Code (2012). 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.

Excluding for depletion of approximately 16 Mt as a result of mining activity since the release of the previous JORC (2012) Coal Reserve estimate, the updated JORC (2012) Coal Reserve estimate as of 30 November 2015 has resulted in reduction of Total Coal Reserve by approximately 24.4%. This is largely due to 50.7%, 56.7% and up to 64.0% reduction in forecasted mine gate revenue assumptions for HCC, washed semi-soft coking coal ("**SSCC**") and thermal coal respectively, compared to assumptions made in the previous Coal Reserve estimate, in line with medium term market conditions forecasted by Shanxi Fenwei.

The application of forecasted sustainable reductions with regard to mining, processing, site administration and other unit costs of 24.7%, 26.2%, 51.3% and 32.4% respectively, largely possible on the basis of actual, sustainable reductions achieved since 2012, as well as on the basis of successful contract negotiations with mining and blasting contractors in 2016, has ensured that the Coal Reserve has not decreased so significantly in lieu of the significantly reduced revenue assumptions. As a result, there has been a 6.5% proportional increase to the content of coking coal within the Total Coal Reserve, as well as reduction in the forecasted remaining LOM stripping ratio by 23.7% to 4.5 bank cubic metres ("**bcm**") per ROM for the minable quantities in the LOM schedule.

## BN deposit

The most recent JORC (2012) Coal Reserve estimate was prepared for the BN deposit as part of an integrated LOM study prepared by RPM in 2013, with the resulting statement dated 31 December 2012. This study was completed on the previous JORC (2012) Coal Resource estimate within the BN mining license prepared by MBGS with statement dated 30 June 2012. An updated JORC Coal Resources Report has been prepared as of 30 June 2015. However, coal reserves have not yet been updated based on this coal resources estimate.

The LOM plan prepared underpinning the current JORC (2012) Coal Reserve estimate for the BN deposit was based upon open cut, multi seam, truck and excavator mining methods. Pit optimization software was used to generate a series of nested pit shells corresponding to varying revenue factors, simulating incrementally different economic scenarios as impacted by operating cost and coal revenue variance.

The pit optimisation algorithms are used and included for implementation of the following:

- limitation of open pit depth to 350m from surface, and overall slope angle restrictions,

based upon geotechnical advice received from Mr. John Latilla from AMC;

- categorisation of coal seams for scheduling purposes based on propensity for coking or thermal coal production, based upon recommendations made by Mr. John Trygstad of Norwest;
- cost input assumptions based upon historical operating performances at both the UHG and BN mines, up until end of 2012; and
- revenue input assumptions derived from a market study of the principal coking and thermal coal markets in China, completed by Shanxi Fenwei in March 2012.

The JORC (2012) Coal Reserve estimate for the BN deposit prepared on basis of the above is summarised in Table 5, with tonnage estimation based on an as-received basis with 6% total moisture. Production activity between 1 January 2013 and 30 June 2017 has depleted the stated BN ROM Coal Reserve by less than 1 Mt, according to mine survey measurement, and is considered to impart no material change.

Table 5. BN mining license JORC (2012) Coal Reserve estimate, as at 30 June 2012 (Notes):

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

Notes:

- (i) The estimate of Coal Reserve presented in Table 5 has been carried out in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code (2012). Technical information in the BN Coal Reserve estimation report 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 under the JORC Code (2012). 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.



# Management Discussion and Analysis

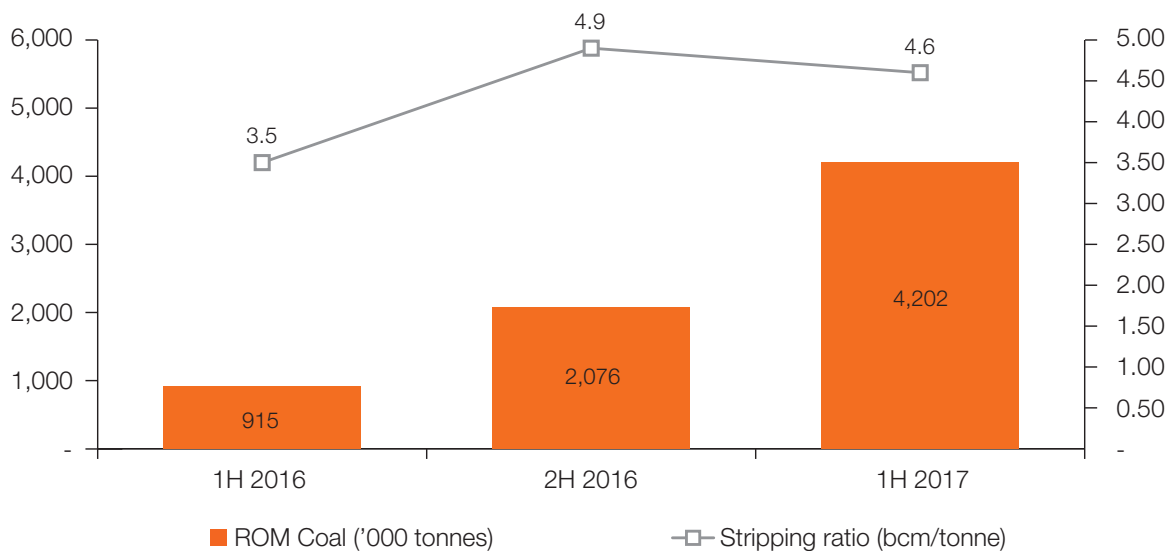
## Production and Transportation

### Coal Mining

In the first half of 2017, ROM coal mining output reached 4.2 Mt. To access coal, approximately 19.4 million bcm of prime overburden was also mined, resulting in an actual stripping ratio of 4.6 bcm per ROM tonne for the period. The successful introduction of Seam 0B coal in ROM coal feed blend to the coal handling and preparation plant (“CHPP”) for HCC production was the main contributing factor

to maintain lower stripping ratio. Seam 0B coal lies partially uncovered at the bottom of the existing pit and was previously considered only as a source for thermal coal production. Following a more thorough investigation conducted by the Group’s technical services, including borehole chip sampling and trench sampling, a significant proportion of Seam 0B has been identified as suitable for HCC production. The Group’s semi-annual mine production for the last three semi-annual periods is shown in Figure 1, all of which has been extracted from UHG mine whilst mine operation at BN remains suspended.

Figure 1. The Group’s 2016-2017 semi-annual ROM coal production volumes (in thousand tonnes) and actual stripping ratios (in bcm of overburden per ROM tonne of coal):

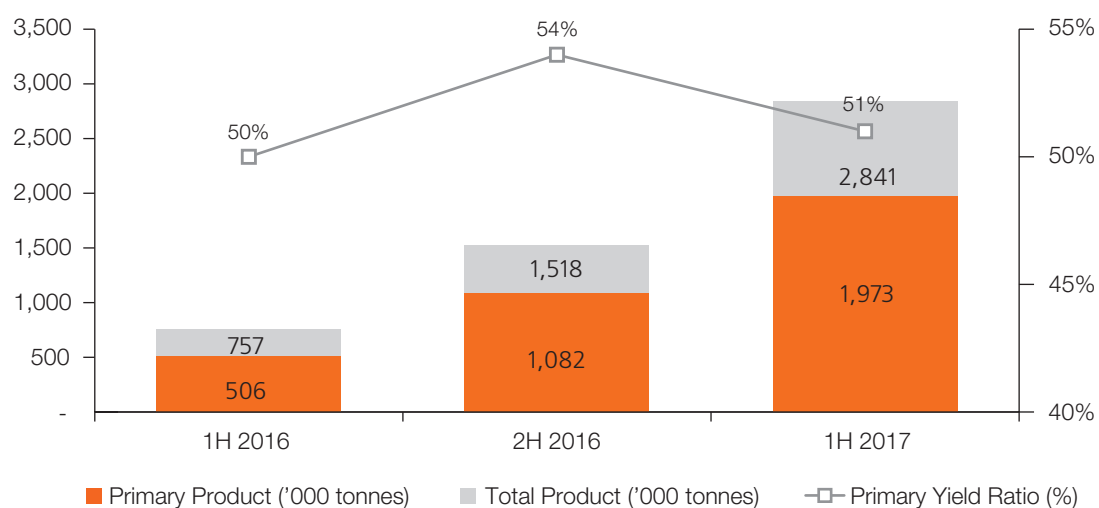


## Coal Processing

With improved market conditions and demand in the first half of 2017, total ROM coal feed of 3.9 Mt was processed, resulting in the production of 2.0 Mt of

HCC as a primary product at 50.6% yield, and 0.9 Mt of middlings as a secondary product at 22.3% yield. All ROM coal processed in first half of 2017 was sourced from the UHG deposit, and the Group's washed coal production for the last three semi-annual periods is shown in Figure 2.

Figure 2. The Group's 2016-2017 semi-annual total and primary processed coal production volumes (in thousand tonnes):



## Transportation and Logistics

In the first half of 2017, the Group increased coal transportation for exports to PRC directly from UHG via Gashuunsukhait ("GS") border crossing point to GM and moved 1.6 Mt of HCC and 0.2 Mt middlings utilizing its own trucking fleet and third party contractors.

In the meantime, 0.5 Mt of HCC and 0.2 Mt of middlings has been transported for exports to GM utilizing trans-shipping custom bonded facility at Tsagaan Khad ("TKH") by utilizing third party contractors.

However, the cross border logistic bottlenecks remain the main factor limiting potential increase for coal export volumes from Mongolia via GS-GM border crossing point. The Group together with other coal exporters operating in the Tavan Tolgoi area are engaged in permanent communication with the relevant authorities on both sides regarding resolving export transportation capacity limitations. Both Mongolian and Chinese authorities made significant efforts to maximize utilization of the existing border capacity at GS-GM border crossing point within the current operational hours, by adding personnel, expediting check processes and other relevant supportive measures.

## Occupational Health, Safety and Environment

In the first half of 2017, approximately 2.4 million man-hours were recorded by employees, contractors and sub-contractors of the Group. During this period, no occurrence of Lost Time Injury ("LTI") was recorded, resulting in a Lost Time Injury Frequency Rate ("LTIFR") of 0.42 LTI per million man-hours worked equivalent being recorded for the period. This represents the second semi-annual period of zero LTI being recorded by the Group since the commencement of the Company's public reporting, and results in a very low 12-month rolling average LTIFR of 0.24 LTI per million man-hours worked equivalent being realised.

The reported Total Recordable Injury Frequency Rate ("TRIFR") represents the Group's best reported performance in any half or full year of operation thus far, and demonstrates the on-going commitment within the Group to achieve the overarching goal of "Zero Harm". The TRIFR for the period was at 7.11 Total Recordable Injuries ("TRI"), resulting in a very low 12-month rolling average TRIFR of 6.4 TRIs per million man-hours worked equivalent being realised.



# Management Discussion and Analysis

During the reporting period, no environmental incident was recorded.

The continued reduction in number of incidents and related frequency rates is a testament to the commitment of the Group's management to the concept of Zero Harm in terms of health, safety and environment. This was again demonstrated by the frequency and quantity of related trainings provided to employees, contractors, sub-contractors and visitors, with 4,205 individual training sessions delivered for 18,744.9 man-hours of training in the first half of 2017.

## Sales and Marketing

Supported by the improved economic growth and the coking coal market in China, the Group increased its sales volume and further strengthened its relationship with its existing customers.

During the visit of the Prime Minister of Mongolia to PRC in May 2017, the Group signed a long term cooperation agreement with Baotou Iron and Steel Co. Ltd and broadened its relationship with the largest steel producer in Inner Mongolia, which is located in close proximity to the Group's UHG and BN mines.

While the Group maintained its coal sales through its existing sales channels mainly in Inner Mongolia, Tianjin and Hebei areas, it continued to expand its customer base by adding new customers. During the first half of 2017, the Group started supplying HCC to customers such as Wuhai Guangna Coking Co., Ltd, Inner Mongolia Meifang Energy Co., Ltd and other customers in Inner Mongolia and Xinjiang provinces.

The Group sold a total of 2.3 Mt of self-produced coal in the first half of 2017, of which 1.9 Mt was HCC and 0.4 Mt was middlings. HCC sales volume increased by 217.0% year-on-year compared to 0.6 Mt HCC sold in the first half of 2016.

Note: Due to rounding, discrepancy may exist in year-on-year percentage change.

## OUTLOOK AND BUSINESS STRATEGIES IN 2017

The Company will continue to pursue the following key strategies in order to maintain and enhance its competitive position as a major washed coking coal producer in Mongolia: (i) adjusting the capital structure and its debt to adequate and sustainable levels; (ii) maximizing assets utilization to lower unit fixed costs; (iii) supporting initiatives to improve logistics infrastructure providing access to Chinese railway network to reach its customers in China and beyond; (iv) exploring opportunities for expanding and diversifying its business operations through potential strategic cooperation and joint ventures arrangements; and (v) maintaining its strong commitment to safety, environment and socially responsible operations.

With improved market conditions, the Company will aim to maximize its production and sales volumes in 2017. The ultimate intention is to ramp up production output in a safe manner by fully utilizing existing capacity, whilst managing working capital requirements and focusing on maintaining cost reductions. Reducing environmental footprint from our operations will also remain as the main priority, including minimizing power and water usage rates.

The management will continue to optimize transportation and logistics efficiency by implementing strategic change solutions. Increasing sales volume will be achieved by adopting aggressive marketing strategy to expand market penetration with direct access to ultimate end-user customers.

The Company will continue to pursue its long term development objectives, including the opportunity to engage in coal mining, processing, transportation and exploration activities at Tavan Tolgoi coalfield in Mongolia. This is evidenced from the Group forming and leading a consortium jointly with China Shenhua Energy Company Limited and Sumitomo Corporation (the "**Consortium**") and the on-going negotiation process with the GoM in relation to the conclusion of definitive agreements with the GoM and its Consortium partners in connection with the Tavan Tolgoi coalfield development. The ultimate benefit to Mongolia is seen from significant improvements of the competitive position of Mongolian coal at international markets by way of consolidating commercial operations within the Tavan Tolgoi coalfield under the public-private-partnership model. On 15 December 2016, the Consortium received an official letter from the working group established by the GoM, formed after the parliamentary election of Mongolia in June 2016, for the purpose of continuing negotiations in relation to the Tavan Tolgoi coalfield development. However, the final outcomes of this transaction remain highly uncertain given the complex nature of negotiations, involving multiple parties, including regulators.

SHAREHOLDERS AND POTENTIAL INVESTORS SHOULD NOTE THAT THE COMPANY MAY OR MAY NOT ENTER INTO ANY DEFINITIVE AGREEMENTS WITH ITS CONSORTIUM PARTNERS, THE GOM AND/OR ITS DESIGNATED ENTITIES. EVEN IF DEFINITIVE AGREEMENTS ARE ENTERED INTO, COMPLETION AND FULFILLMENT OF SUCH AGREEMENTS WILL BE SUBJECT TO SATISFACTION OF THE CONDITIONS PRECEDENT SET OUT THEREIN. ACCORDINGLY, THE COMPANY MAY OR MAY NOT BENEFIT FROM THE TAVAN TOLGOI COALFIELD DEVELOPMENT. SHAREHOLDERS AND POTENTIAL INVESTORS ARE ADVISED TO EXERCISE CAUTION WHEN DEALING IN THE SECURITIES OF THE COMPANY.

## FINANCIAL REVIEW

### Revenue

In line with the improved coking coal market, the Group was able to achieve higher selling price and sales volume during the six months ended 30 June 2017. During this period, the Group sold approximately 2.3 Mt of coal products, representing an increase of 292.7% compared to approximately 0.6 Mt of coal products sold during the six months ended 30 June 2016, and generated a total revenue of USD245.9 million, which was increased by 691.7% compared to USD31.1 million of total revenue generated during the six months ended 30 June 2016. The Group sold approximately 1.9 Mt of HCC during the six months ended 30 June 2017, representing an increase of 217.0% compared to 0.6 Mt of HCC sold during the six months ended 30 June 2016. This includes approximately 59.5 thousand tonnes of HCC sold under Delivery-at-Place ("**DAP**") GM terms, approximately 1.6 Mt and 0.2 Mt of HCC sold under FOT and Cost-and-Freight ("**C&F**") terms under inland China sales, respectively.

The Group's pricing reflects the current price trend of the coking coal market. The average selling price ("**ASP**") for HCC was USD127.7 per tonne for the six months ended 30 June 2017, compared to USD52.2 per tonne in the six months ended 30 June 2016. The ASP of HCC under DAP GM terms was USD115.7 per tonne for the six months ended 30 June 2017, representing an increase of 133.3% compared to USD49.6 per tonne for the six months ended 30 June 2016. The ASP of HCC under FOT and C&F term sales were USD123.5 per tonne and USD161.0 per tonne, respectively during the first half of 2017, compared to USD47.3 per tonne and USD76.8 per tonne, respectively, during the first half of 2016.





# Management Discussion and Analysis

For the six months ended 30 June 2017, the Group derived individually more than 10.0% of its revenue from one customer, with the purchase amounts of approximately USD93.7 million. For the six months ended 30 June 2016, the Group derived individually more than 10.0% of its revenue from five customers, with the purchase amounts of approximately USD5.3 million, USD4.9 million, USD4.5 million, USD4.3 million and USD3.3 million, respectively.

## Cost of Revenue

The Group's cost of revenue consists primarily of mining costs, processing and handling costs, transportation and logistics costs, and costs related to

site administration, stockpile and transportation loss, and governmental royalties and fees.

During the six months ended 30 June 2017, the total cost of revenue increased to USD135.3 million from USD64.6 million during the six months ended 30 June 2016, due to higher sales volume.

The total cost of revenue of USD64.6 million for the six months ended 30 June 2016, was inclusive of USD11.8 million inventory provision booked due to weak prices of coal products in 2016. The provision was made based on the assessment of the net realizable value of coal inventories. There was no additional inventory provision for the six months ended 30 June 2017.

Table 6. Total and individual costs of revenue of self-produced coal:

	Six months ended 30 June	
	2017 (USD'000)	2016 (USD'000)
<b>Cost of self-produced coal</b>	<b>135,335</b>	52,791
<b>Idling cost</b>	<b>–</b>	17,859
<b>Cost of self-produced coal excluding idling cost</b>	<b>135,335</b>	34,932
<b>Mining cost</b>	<b>47,866</b>	11,224
Variable cost	<b>20,104</b>	6,105
Fixed cost	<b>23,870</b>	4,596
Depreciation and amortization	<b>3,892</b>	523
<b>Processing cost</b>	<b>19,283</b>	6,994
Variable cost	<b>5,124</b>	3,292
Fixed cost	<b>1,385</b>	574
Depreciation and amortization	<b>12,774</b>	3,128
<b>Handling cost</b>	<b>3,552</b>	625
<b>Transportation cost</b>	<b>39,528</b>	8,155
<b>Logistic cost</b>	<b>3,642</b>	1,942
Variable cost	<b>1,870</b>	1,162
Fixed cost	<b>1,679</b>	712
Depreciation and amortization	<b>93</b>	68
<b>Site administration cost</b>	<b>7,100</b>	3,551
<b>Transportation and stockpile gain</b>	<b>(1,825)</b>	(235)
<b>Royalties and fees</b>	<b>16,189</b>	2,676
Royalty	<b>13,005</b>	1,620
Air pollution fee	<b>1,611</b>	590
Customs fee	<b>1,573</b>	466

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 2017, the Group's mining

costs were approximately USD47.9 million (first half of 2016: USD11.2 million). Mining unit cost was USD12.8 per ROM tonne for the six months ended 30 June 2017, compared to USD9.4 per ROM tonne for the six months ended 30 June 2016. The increase of the contractor fee per unit was due to indexed project base fee to the market price of coal.



# Management Discussion and Analysis

Table 7. Total unit mining cost per ROM tonne:

	Six months ended 30 June	
	2017 (USD/ROM tonne)	2016 (USD/ROM tonne)
<b>Mining cost</b>	<b>12.8</b>	9.4
Blasting	<b>1.0</b>	1.0
Plant cost	<b>2.5</b>	2.1
Fuel	<b>1.9</b>	2.0
National staff cost	<b>0.7</b>	0.7
Expatriate staff cost	<b>0.2</b>	0.3
Contractor fee	<b>5.4</b>	2.8
Ancillary and support cost	<b>0.1</b>	0.1
Depreciation and amortization	<b>1.0</b>	0.4

Note: The above mining cost does not include idling cost.

The Group identified components of the mine in accordance with the mine plan, and accounting of mining unit costs is based on the stripping ratio applicable to each component of the mine. Average accounting stripping ratio for components mined during the six months ended 30 June 2017, was 2.5 bcm per tonne, compared to 2.4 bcm per tonne for the six months ended 30 June 2016. 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 stripping ratio, which is capitalized in the balance sheet as mining structure.

The processing cost primarily includes the costs associated with operations of CHPP including power

generation and water extraction costs. During the six months ended 30 June 2017, the Group's processing cost was approximately USD19.3 million (first half of 2016: USD7.0 million), of which approximately USD12.8 million was related to the depreciation and amortization of the CHPP, USD2.0 million were costs related to power generation and distribution, and USD0.8 million were costs incurred for water extraction and distribution related to the washed coal sold during the period.

Unit processing cost calculated per ROM coal in-feed tonne decreased from USD5.9 per ROM tonne for the six months ended 30 June 2016, to USD5.2 per ROM tonne for the six months ended 30 June 2017, representing a decrease of 11.9%. The decrease was mainly attributable to the higher utilization of the plant.

Table 8. Total processing cost and unit processing cost per ROM tonne:

	Six months ended 30 June			
	2017 (USD'000)	2016 (USD'000)	2017 (USD/ROM tonne)	2016 (USD/ROM tonne)
<b>Total</b>	<b>19,283</b>	6,994	<b>5.2</b>	5.9
Consumables	<b>992</b>	281	<b>0.3</b>	0.2
Maintenance and spares	<b>1,364</b>	209	<b>0.4</b>	0.2
Power	<b>2,002</b>	1,994	<b>0.5</b>	1.7
Water	<b>766</b>	808	<b>0.2</b>	0.7
Staff	<b>804</b>	288	<b>0.2</b>	0.2
Ancillary and support	<b>581</b>	286	<b>0.2</b>	0.3
Depreciation and amortization	<b>12,774</b>	3,128	<b>3.4</b>	2.6

Note: The above processing cost does not include idling cost.

The handling cost is related to feeding ROM coal from ROM coal stockpiles to the CHPP, and also the removal of course reject (primarily rock and sediment separated from coal) after coal processing. During the six months ended 30 June 2017, the Group's handling cost was approximately USD3.6 million (first half of 2016: USD0.6 million). Unit handling cost was USD1.5 per tonne for the six months ended 30 June 2017 (first half of 2016: USD1.0 per tonne). The increase in unit handling cost was mainly from an increase of re-handling activities due to the higher production volume during the reporting period.

During the six months ended 30 June 2017, the Group's transportation costs were USD39.5 million (first half of 2016: USD8.2 million, excluding idling cost) including transportation costs incurred for using own fleet and fees paid to third party contractors. On an unit cost basis, the Group's average transportation costs from UHG to GM increased from USD13.7 per tonne in the six months ended 30 June 2016, to USD16.9 per tonne in the six months ended 30 June 2017. The increased fees charged by third party contractors were the main reason for the increase in the unit transportation cost, caused by the cross border logistic bottlenecks due to increased demand in the coking coal market, resulting in a historical high coal export semi-annual volume from Mongolia via GS-GM border crossing point during the reporting period.

The logistics cost is mainly related to costs associated with product stockpiles at UHG and TKH. For the six months ended 30 June 2017, the Group's logistics cost was approximately USD3.6 million (first half of 2016: USD1.9 million). The unit logistics cost reduced by 51.5% from USD3.3 per tonne during the six months ended 30 June 2016 to USD1.6 per tonne during the six months ended 30 June 2017 as the handling cost at TKH was reduced due to the increase in direct transportation from UHG to GM.

For the six months ended 30 June 2017, the Group recorded a total transportation loss of around USD0.5 million (first half of 2016: USD83,000), and unrealized inventory gain of USD2.3 million for ROM coal and washed coal product stockpiles (first half of 2016: USD0.3 million). The inventory losses or gains are assessed based on periodic survey measurements of the Group's ROM coal stockpile inventories at the mine sites, and product coal stockpile inventories at UHG, TKH and inland China stock. 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.



# Management Discussion and Analysis

The site administration cost is primarily related to the site support facilities such as overall supervision and joint management of the Group's mining, processing, transportation and logistics operations. For the six months ended 30 June 2017, the Group's site administration cost was approximately USD7.1 million (first half of 2016: USD3.6 million). The site administration cost for the six months ended 30 June 2016 was comparably lower due to the suspension of operations during the period.

Governmental royalties and fees are related to royalties, air pollution fees and custom fees paid in accordance with the applicable laws and regulations in Mongolia. The progressive royalty rate is applied in the range of 5-8% for processed coal products and 5-10% for raw coal products based on monthly reference price determined by the Ministry of Mining and Heavy Industry of Mongolia. Starting from 1 February 2016, the contract prices were allowed to be used for calculating royalty rates pursuant to Resolution No. 81 of the GoM. The Group's effective royalty rate for the six months ended 30 June 2017, was approximately 5.9% for coal exported from Mongolia based on customs clearance documentation (first half of 2016: 5.0%).

## Gross Profit/Loss

The Group's gross profit for the six months ended 30 June 2017 was approximately USD110.6 million, compared to the gross loss of approximately USD33.6 million recorded for the six months ended 30 June 2016. The increase in gross profit position was due to the increase in sales volume and ASP.

## Selling and Distribution Costs

The Group's selling and distribution costs were USD27.9 million for the six months ended 30 June 2017 (first half of 2016: USD5.7 million) which were

associated with the inland China sales activities and include expenses relating to fees and charges incurred for importing coal into China, logistics, transportation, governmental fees and charges and fixed agent fees. The selling and distribution costs were higher compared to the six months ended 30 June 2016 due to higher sales volume realized under inland China sales activities.

## General and Administration Expenses

The Group's general and administrative expenses relate primarily to head office staff costs, share option expenses, consultancy and professional fees, depreciation and amortization of office equipment and other expenses. For the six months ended 30 June 2017, the Group's general and administrative expenses were approximately USD7.6 million (first half of 2016: USD5.3 million).

## Net Finance Costs

Net finance costs for the six months ended 30 June 2017, was approximately USD4.8 million (first half of 2016: USD19.9 million). Net finance costs for the six months ended 30 June 2017 comprised of interest expense and other credit facilities related expenses, and approximately USD13.3 million foreign exchange net gain, which is mainly due to the MNT appreciation during the reporting period.

## Income Tax Expenses

The Group's income tax expense for the six months ended 30 June 2017, was approximately USD19.2 million. The Group did not have income tax expense for the six months ended 30 June 2016, due to the loss incurred during the period, but had income tax credit of USD1.8 million.

### Gain from Debt Restructuring

The Group was due to redeem the senior notes issued by the Company with a principal amount of USD600,000,000 on 29 March 2017. The Group was due to repay the secured interest-bearing borrowings from BNP Paribas Singapore Branch and Industrial and Commercial Bank of China Limited (collectively, the “**Lenders**”) with a principal amount of USD93,000,000 (the “**BNP and ICBC Facility**”) within the year ended 31 December 2016. The Group was in payment default of interest under the senior notes with principal amount of USD600,000,000 and also in payment default of the BNP and ICBC Facility. In addition, the Group was overdue in repaying promissory notes of USD72,216,000 to QGX Holding Ltd. (“**QGX**”). The Group commenced the debt restructuring (the “**Debt Restructuring**”) with the holders of the senior notes, the Lenders, and QGX (collectively “**Creditors**”) in 2016.

On 4 May 2017, the Group completed the successful implementation of the Debt Restructuring. On 8 June 2017 (Cayman Islands time), the Joint Provisional Liquidators were discharged from office and released from the performance of their duties by order of the Grand Court of the Cayman Islands. All information in relation to the process of the Debt Restructuring is published on the websites of the Company and Hong Kong Exchanges and Clearing Limited. Upon the completion of the Debt Restructuring, the outstanding principal and accrued interest of the senior notes, the BNP and ICBC Facility and the promissory notes issued to QGX were restructured to (i) 1,029,176,615 shares of the Company booked at its market value of USD30,285,066 based on the closing price of the Company’s shares of HKD0.229 on 4 May 2017, (ii) perpetual notes with principal amount of USD195,000,000 booked at its fair value of USD75,897,000, (iii) first ranking senior secured facility with principal amount of USD31,200,000 (the “**Senior Loan**”) booked at its fair value of USD30,960,000, including a derivative component of interest rate linked to the benchmark coal price index booked at its fair

value of USD1,754,000, and (iv) the new senior secured notes with principal amount of USD412,465,892 (the “**Senior Notes**”) booked at its fair value of USD425,267,000, including a derivative component of interest rate linked to the benchmark coal price index booked at its fair value of USD9,481,667 and a derivative component of cash sweep premium booked at its fair value of USD37,789,333.

The excess of carrying value of the restructured financial liabilities over the fair value of the consideration to settle the restructured financial liabilities, amounting to approximately USD262,968,000, net of expenses incurred in relation to the Debt Restructuring of USD30,185,000, has been recognised by the Group as a gain from the Debt Restructuring and credited to profit or loss during the six months ended 30 June 2017.

The gain from the Debt Restructuring is set out in the unaudited consolidated statement of profit or loss on page 48, and further details of the credit facilities issued as a result of the Debt Restructuring are set out in the section headed “Indebtedness” on page 30.

### Profit/Loss for the Period

The profit attributable to equity shareholders of the Company for the six months ended 30 June 2017 amounted to approximately USD311.7 million. For the six months ended 30 June 2016, the Group recorded USD61.7 million of losses attributable to equity shareholders. Major contributing factors of the Group’s net profit position are the increase in ASP and higher sales volume of coking coal products due to strengthening market conditions and gain from completion of the Debt Restructuring.

### Liquidity and Capital Resources

For the six months ended 30 June 2017, the Company’s cash needs were primarily related to working capital requirements.



# Management Discussion and Analysis

Table 9. Combined cash flows:

	For the six months ended 30 June	
	2017 USD'000	2016 USD'000
Net cash generated from operating activities	<b>28,090</b>	8,650
Net cash (used in)/generated from investing activities	<b>(34,474)</b>	53,237
Net cash used in financing activities	–	(59,694)
Net (decrease)/increase in cash and cash equivalents	<b>(6,384)</b>	2,193
Cash and cash equivalents at beginning of the period	<b>12,268</b>	702
Effect of foreign exchange rate changes	<b>110</b>	87
Time deposits with original maturity over three months	–	–
Cash and cash equivalents at end of the period	<b>5,994</b>	2,982

Note: USD34.5 million used in investing activities comprises of USD32.9 million incurred for payments of deferred stripping activity and USD1.6 million used mainly for deferred payments of property, plant and equipment.

The gearing ratio (calculated as total bank and other borrowings divided by total assets) of the Company as at 30 June 2017 was 27.8% (31 December 2016: 43.9%). All borrowings are denominated in USD. Cash and cash equivalents are mainly held in MNT, USD and RMB. The Company's policy is to regularly monitor current and expected liquidity requirements and compliance with debt covenants to ensure that the Company maintains sufficient reserves of cash to meet its liquidity requirements in the short and long term.

## Indebtedness

On 4 May 2017, the Company completed the successful implementation of the Debt Restructuring, and the Group's indebtedness has been restructured to the Senior Loan of USD31.2 million issued by BNP Paribas Singapore Branch, Industrial and Commercial Bank of China Limited and ICBC London Plc (the "New Lenders"). The Senior Loan bears interest, ranging from 5% to 8% per annum based on the

benchmark coal price index, payable semi-annually and it is repayable with quarterly installments of USD7.5 million starting from 31 December 2018 with the remaining repayable upon maturity on 30 September 2019. For more details, please refer to the Company's announcement dated 5 May 2017.

In addition to the Senior Loan, the Group issued Senior Notes of approximately USD412.5 million to the noteholders of the pre-restructuring senior notes, the New Lenders and QGX bearing interest, ranging from 5% to 8% per annum based on the benchmark coal price index, payable semi-annually and maturing on 30 September 2022. For more details, please refer to the Company's announcement dated 3 November 2016.

As of 30 June 2017, the Company had USD443.7 million outstanding principal payments consisting of (i) USD412.5 million Senior Notes and (ii) USD31.2 million Senior Loan.

## Credit Risk

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

As at 30 June 2017, the Group had approximately USD22.6 million in trade receivables and USD65.9 million in other receivables. As at 31 December 2016, the Group had USD11.8 million in trade receivables and USD46.9 million in other receivables.

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

With regard to other receivables of USD65.9 million, this amount is mainly related to USD31.3 million value added tax ("**VAT**") and other tax receivables, and USD33.8 million of other deposits and prepayments. 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 with reputable banks, of which the management assessed the credit risk to be insignificant.

## 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 2017 and 31 December 2016 amounted to USD4.5 million and USD1.4 million, respectively. Total outstanding principal amount of indebtedness denominated in the currency other than the functional currency of the entity to which they relate as at 30 June 2017 and 31 December 2016 amounted to USD443.7 million and nil, 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

The Company pledged collection accounts and certain coal stockpiles under the Senior Loan as at 30 June 2017. The Group also pledged debt reserve account, CHPP modules 1 and 2, UHG Power Plant, certain water facilities, shares of Mongolian Coal Corporation Limited, Mongolian Coal Corporation S.à.r.l., Enreotechnology LLC, Ukhaa Khudag Water Supply LLC and United Power LLC, which are shared among the creditors of the Senior Loan and the Senior Notes. The total principal amount of indebtedness covered with the above pledges was USD443.7 million as at 30 June 2017.

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





# Management Discussion and Analysis

## Contingent Liabilities

As at 30 June 2017, 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 Baruun Naran Limited (formerly known as 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 semi-annual production target fixed on the date of the determination of the total reserves in each semi-annual period after 1 June 2011 commencing on 1 January and ending on 30 June and commencing on 1 July and ending on 31 December.

Under the royalty provisions for excessive coal production at the BN mine pursuant to the Share Purchase Agreement and the Settlement Agreement dated 27 November 2012 entered into by the same parties as the Share Purchase Agreement, the specified semi-annual ROM coal production has to exceed approximately 5.0 Mt. Therefore, the probability of royalty provision is considered to be very low.

## Financial Instruments

The Company has a share option scheme, adopted on 17 September 2010 ("**Share Option Scheme**"), in which the board (the "**Board**") of directors (the

"**Directors**") of the Company is authorised, at its discretion, to grant to eligible participants options to subscribe for shares ("**Share Options**" or "**Options**") subject to the terms and conditions stipulated therein as incentives or rewards for their contributions to the Company.

Under the Share Option Scheme, the Company granted four batches of Share Options to its Directors and employees. On 12 October 2011, the Company granted 3,000,000 and 32,200,000 Share Options to a Director and employees respectively, at the exercise price of HKD6.66 (which was adjusted to HKD4.53 due to rights issue in December 2014). On 28 November 2012, the Company granted another 5,000,000 and 17,750,000 Share Options to a Director and employees respectively, at the exercise price of HKD3.92 (which was adjusted to HKD2.67 due to rights issue in December 2014). On 10 June 2015, the Company granted another 60,000,000 and 94,750,000 Share Options to a Director and employees respectively, at the exercise price of HKD0.445. On 8 May 2017, the Company granted another 40,000,000 and 100,000,000 Share Options to a Director and employees respectively, at the exercise price of HKD0.2392.

The fair value of services received in return for Share Options granted is measured by reference to the fair value of Share Options granted. The estimate of the fair value of the Share Options granted is measured based on the Black-Scholes option pricing model. The variables of the models included expected life of the Options, risk-free interest rate, expected volatility and expected dividend of the shares of the Company.

Table 10. Fair value of Share Options and assumptions:

	8 May 2017	10 June 2015	28 November 2012	12 October 2011
Fair value at measurement date	HKD0.0830 ~HKD0.1150	HKD0.160 ~HKD0.220	HKD1.8155 ~ HKD2.0303	HKD3.3793 ~ HKD3.7663
Share price	HKD0.2260	HKD0.445	HKD3.92	HKD6.66
Exercise price	HKD0.2392	HKD0.445	HKD3.92	HKD6.66
Expected life	5 years	5 years	4.5-5.5 years	4.5-6 years
Risk-free interest rate	1.132%	1.19%	0.249%~0.298%	0.755%~1.054%
Expected volatility	62%	60%	57.71%~59.43%	61.87%~63.43%
Expected dividends	–	–	–	–

The expected volatility is based on the historic volatility of entities in the same industry (calculated based on the weighted average remaining life of the Share Options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on management's estimates. The risk-free interest rate is based on the yield of Hong Kong Exchange Fund Notes corresponding to the expected life of the Options as at the grant date. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share Options were granted under a service condition. The condition has not been taken into account in the grant date fair value measurement of the services received. There was no market condition associated with the Share Options grants.

For the six months ended 30 June 2017, USD0.8 million was recognised in administrative expenses and capital reserves in relation to the equity-settled share-based transactions.

### Capital Commitments and Capital Expenditures

As at 30 June 2017, the capital commitments outstanding on the respective dates on the balance sheet were as follows:

Table 11. Capital commitments:

	As at 30 June 2017 USD'000	As at 31 December 2016 USD'000 (audited)
Contracted for	–	510
Authorized but not contracted for	10,311	–
<b>Total</b>	<b>10,311</b>	510

Table 12. The Group's historical capital expenditure for the periods indicated:

	For the six months ended 30 June 2017 USD'000	2016 USD'000
Water supply facility	–	–
Others	284	59
<b>Total</b>	<b>284</b>	59



# Management Discussion and Analysis

## Operating Lease Commitments

As at 30 June 2017, the Company had contracted obligations consisting of operating leases which totalled approximately USD0.2 million due within one year. Lease terms range from one to five years, with fixed rentals.

## Significant Investments Held

As at 30 June 2017, the Company did not hold any significant investments. Save as disclosed in this interim report, the Company has no future plans for material investment or capital assets in the coming year.

## Material Acquisitions and Disposals of Subsidiaries and Associated Companies

For the six months ended 30 June 2017, the Company did not have any material acquisitions and disposals of subsidiaries and associated companies.

## Other and Subsequent Events

There have been no post balance sheet events subsequent to 30 June 2017 which require adjustment to or disclosure in this interim report.

## Employees

As at 30 June 2017, the number of employees of the Group was 1,588, compared with 1,494 employees as at 30 June 2016.

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.

In the six months ended 30 June 2017, the Company heavily focused on re-training safety inductions and conducted certified health, safety and environment ("HSE") officer training among employees of grade 4 and above whom lead operation shifts. As at 30 June 2017, a total of 5,227 employees attended trainings, out of which 4,205 employees attended safety training and other professional trainings; 612 employees attended mining heavy equipment operator training; 148 employees attended mine maintenance training and 262 employees attended professional development training.

The Group's total staff costs for the six months ended 30 June 2017 was USD9.3 million, compared to USD6.0 million for the six months ended 30 June 2016.

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

For the six months ended 30 June 2017, neither the Company nor any of its subsidiaries had purchased, sold, or redeemed any of the Company's listed securities.

## DIVIDEND

The Board does not recommend the payment of dividend in respect of the six months ended 30 June 2017 (dividend for the six months ended 30 June 2016: nil).

## REVIEW BY AUDIT COMMITTEE

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

The Audit Committee of the Company, together with the management, have reviewed the accounting principles and practice adopted by the Group, and also discussed issues related to financial reporting, including the review of the Group's unaudited interim results and interim report for the period under review. The Audit Committee is of the opinion that such statements and the interim report comply with the applicable accounting standards, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and legal requirements, and that adequate disclosures have been made.

# Corporate Social Responsibility

MMC has a long standing commitment to Corporate Social Responsibility (“**CSR**”) and aims to drive improvements in health and safety of its employees, environmental sustainability and long-term development of the communities where it operates. We support and implement a wide range of programs and initiatives that focus on job creation, improved access to health and education, and local business development to build stronger and more sustainable communities.

During the reporting period, the Company continued with the following CSR initiatives and projects:

## COMMUNITY ENGAGEMENT AND SUSTAINABILITY

- The Company signed a Framework Cooperation Agreement with the Governor of Umnugobi



*Framework Cooperation Agreement signing ceremony, 22 June 2017*

aimag on 22 June 2017. The agreement was built on the Company’s success that has already been achieved in the areas such as job creation, local infrastructure development, environmental protection, community development, and cultural heritage preservation etc.. While reiterating the existing partnership between the local government and MMC, it sets out a framework for an even longer term of strategic cooperation between the parties and mutual contribution to the sustainability of the local communities.

- The Community Development Advisory Council (“**CDAC**”) was re-established in Tsogttsetsii soum, Umnugobi aimag on 21 May 2016. Created solely by the Company’s initiative, the CDAC comprises nine community members of Tsogttsetsii soum, representing the local non-governmental organizations, affected herders, senior citizens, female headed households and soum center residents. The CDAC provides a venue for the community members to get updated information about the Company’s operations, share any concerns or suggestions, discuss the effectiveness of the on-going community programs and/ or submit proposals for new programs. The CDAC members meet on a monthly basis with the Company’s Community Relations Team to promote more regular interactions with the community members.

## Community Development Programs

- To create better economic opportunities for the affected herders and the host community members, the Company is implementing a Sustainable Livelihood Support Program that primarily focuses on supporting local start-up businesses and SMEs, in three phases. The second phase of the project was launched in Tsogttsetsii soum, Umnugobi aimag in June 2017 and involved dozens of local herders and family members of the relocated employees. In collaboration with XacBank of Mongolia and local non-governmental organizations specialized in small business trainings, the Company provides interest-free loans to eligible participants, enabling them to start new businesses or expand their existing ones. The project will continue for 3 years to 2020.
- The Company created a wind protected area for the Tsogttsetsii soum residents in 2012 to support their vegetable gardening initiatives and combat desertification. Local people who grow vegetables in the wind belt are provided with a cultivated land and an irrigation system, and undergo training on vegetable gardening. During the reporting period, a total of 40 households of Tsogttsetsii soum grew over 20 different types of vegetables in the area.
- To ease the impact of population influx to Tsogttsetsii soum and improve access to quality education in Umnugobi aimag, the Company established "Muruudul" school, kindergarten, and dormitory complex in 2012. The school complex is owned by the local government and serves the education needs of both local residents and the children of the Company's employees. MMC has implemented a 5-year educational support program at "Muruudul" school complex in order to develop its capacity and empower local teachers to provide better quality education. As part of this program, a number of highly qualified teachers from Ulaanbaatar was invited to work at "Muruudul" school and were relocated to Tsogttsetsii

soum. In May 2017, the Company provided six apartments in "Tsetsii" miners' town to "Muruudul" school, which will greatly improve the living conditions of the resettled teachers and will serve as an important recruiting tool in the future.

## "Good Neighborhood" Initiative

Within the framework of the "Good Neighborhood" initiative, the Company provides various types of in-kind assistance to the host communities. During the period under review, the Company carried out the following activities:

- Free-of-charge thermal coal was provided to Dalanzadgad city power plant as well as power plants in nearby soums of Tsogttsetsii, Bayan-Ovoo, Khanbodg during the harsh winter months;
- Free-of-charge seedlings, shrubs and trees were provided to the local administration for their use in various landscaping projects in and around Tsogttsetsii soum;
- An annual welcoming event was organized on the occasion of the Lunar new year to pay respect to senior citizens in the local communities. This year's event involved over 380 senior citizens from the impacted soums of Tsogttsetsii, Bayan-Ovoo, Khanbodg and Khankhongor;
- In response to the requests from local herders and local authorities of Tsogttsetsii soum, the Company made two water wells available for the use of around 30 herder households.
- Gently-used computers were donated to a foundation that supports visually impaired people in Mongolia and financial assistance was provided to a number of non-profit organizations such as Mongolian Organ Transplantation Committee and Mongolian Geologists' Committee.



# Corporate Social Responsibility

## HEALTH, SAFETY AND ENVIRONMENT

The LTIFR and other safety performances throughout the reporting period represent the Group's best reported performance in any half or full year of operation thus far, and demonstrate MMC's on-going commitment to achieve the overarching goal of "Zero Harm". Below are some of the highlights in the area of health, safety and environment in the first half of 2017:

- The LTIFR, an injury frequency rate, expressed as the number of injuries per million hours worked, was 0.42 for approximately 2.4 million man-hours recorded within the Company's coal mining, processing and transportation operations in the first half of 2017;
- Workplace occupational hygiene and safety inspections were carried out for more than 138 times at various workplace locations. All identified hazards and Occupational Health, Safety and Environment Management System non-conformances were investigated in order to discover and eliminate the root causes;
- A total of 46 workplace safety risk assessments (excluding Job Safety Analysis) were conducted during the reporting period to minimize or eliminate work-related hazards and to enhance the awareness of daily safety routines among the Company's employees;
- A total of 4,205 safety training sessions were delivered to employees, contractors and visitors, totalling 18,744.9 man-hours;
- About 2,850 trees were planted by the Company's employees along the paved road between the worker's camp, the mine site and windbreak greenbelt area, and 1,800 seedlings were donated to local organizations and citizens. Plants such as Tamarisk, Silverberry, Elm and Aspen were planted by seeds and cuttings in the mine-site nursery field for landscaping purposes.
- The Company organizes voluntary environmental protection activities and awareness campaigns for its employees and local residents on a regular basis. For instance, the World Water Day on 22 March 2017 was celebrated at the mine-site to raise the public awareness and promote sensible use of water of both the Company's employees and host community members. As a result, a total of 110 school children were involved in the awareness activities.
- The Company regularly monitors and measures the impact of its activities on the environment and involves the local community members in routine monitoring activities. During the reporting period, 27 local residents including herders, school children and local government officials, took part in the Company's environmental monitoring activities.
- As part of its Biodiversity action plan, the Company has organized wild animal conservation activities every year since 2009. In February 2017, the Company's environmental team members placed 140 kilograms of natural salt marsh in several locations of "Tsetsii" mountain as an extra food support for hoofed mountain animals in the region, including the Siberian ibex and argali (wild sheep) during harsh winter months.

# Disclosure of Information

## 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 2017.

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

## STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has adopted the code provisions set out in the Corporate Governance Code (the "**CG Code**") as contained in Appendix 14 to the Listing Rules as its code of corporate governance. CG Code provision E.1.2 stipulated that the chairman of the board should attend the annual general meeting ("**AGM**") of the Company. Mr. Odjargal Jambaljamts, Chairman of the Board, appointed Dr. Battsengel Gotov, executive Director and Chief Executive Officer, to attend and answer questions on his behalf at the 2017 AGM of the Company held on 14 June 2017, as Mr. Odjargal Jambaljamts was unable to attend the 2017 AGM due to important business engagement. Save as disclosed above, the Company has complied with all other applicable code provisions as set out in the CG Code.





# Disclosure of Information

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

As at 30 June 2017, the interest and short positions of the Directors and chief executive of the Company in the shares and underlying shares or debentures of

the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) ("**SFO**")) which were required (i) to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); (ii) to be entered in the register required to be kept pursuant to section 352 of the SFO; or (iii) pursuant to the Model Code, to be notified to the Company and the Stock Exchange were as follows:

(a) Table 13. Interests in Shares:

Name of Director	Nature of interest	Ordinary shares of USD0.01 each	
		Total number of Shares held	Approximate percentage of total issued share capital
Mr. Odjargal Jambaljamts (Note 1)	Interest of controlled corporation	3,693,241,531 (L)	35.89%
		36,679,681 (S)	0.36%
Mr. Od Jambaljamts (Note 2)	Interest of controlled corporation	3,497,356,251 (L)	33.98%
		142,984,588 (S)	1.39%
Dr. Oyungerel Janchiv (Note 3)	Interest of controlled corporation	112,833,333 (L)	1.10%
Mr. Gankhuyag Adilbish (Note 4)	Interest of controlled corporation	11,819,579 (L)	0.11%
		11,819,579 (S)	0.11%

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

Notes:

- (1) Mr. Odjargal Jambaljamts holds the entire interest of Novel Holdings Group Limited. Novel Holdings Group Limited directly holds 461,647,547 shares in the Company and is also interested in approximately 49.84% of MCS (Mongolia) Limited. MCS (Mongolia) Limited holds the entire interest of MCS Global Limited which in turn holds the entire interest of MCS Holding LLC. MCS Holding LLC is interested in approximately 39.16% of MCS Mining Group Limited which in turn holds 3,231,593,984 shares in the Company. MCS (Mongolia) Limited is also directly interested in approximately 60.84% of MCS Mining Group Limited. MCS Mining Group Limited had a short position in 36,679,681 shares of the Company.

- (2) Mr. Od Jambaljamts holds the entire interest of Trimunkh Limited. Trimunkh Limited directly holds 265,762,267 shares in the Company and is also interested in approximately 28.69% of MCS (Mongolia) Limited. MCS (Mongolia) Limited holds the entire interest of MCS Global Limited which in turn holds the entire interest of MCS Holding LLC. MCS Holding LLC is interested in approximately 39.16% of MCS Mining Group Limited which in turn holds 3,231,593,984 shares in the Company. MCS (Mongolia) Limited is also directly interested in approximately 60.84% of MCS Mining Group Limited. MCS Mining Group Limited had a short position in 36,679,681 shares and Trimunkh Limited had a short position in 106,304,907 shares of the Company.
- (3) Dr. Oyungerel Janchiv, through Lotus Amsa Limited which is 100% owned by her, held 112,833,333 shares in the Company.
- (4) Mr. Gankhuyag Adilbish, through Tugs Investments Limited which is 100% owned by him, held 11,819,579 shares in the Company and had a short position in 11,819,579 shares in the Company.

(b) Table 14. Interest in underlying Shares:

<b>Name of Director</b>	<b>Nature of interest</b>	<b>Ordinary shares of USD0.01 each</b>	
		<b>Total number of underlying Shares held pursuant to Share Options under the Share Option Scheme</b>	<b>Approximate percentage of total issued share capital</b>
Dr. Battengel Gotov	Beneficial owner	111,764,707 (L)	1.09%

(L) – Long position

Save as disclosed above, as at 30 June 2017, so far as was known to any Director or chief executive of the Company, neither the Directors nor the chief executive had any interests or short positions in any shares,

underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).



# Disclosure of Information

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

As at 30 June 2017, so far as was known to the Directors and chief executive of the Company and based on the information publicly available, the

following persons (other than a Director or chief executive of the Company whose interests are disclosed above) had interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO:

Table 15. Interests in Shares and underlying Shares:

Name of substantial shareholder	Nature of interest	Ordinary shares of USD0.01 each	
		Total number of Shares held	Approximate percentage of total issued share capital
MCS Mining Group Limited (Note 1)	Beneficial owner	3,231,593,984 (L)	31.40%
		36,679,681 (S)	0.36%
MCS (Mongolia) Limited (Note 1)	Interest of controlled corporation	3,231,593,984 (L)	31.40%
		36,679,681 (S)	0.36%
MCS Global Limited (Note 1)	Interest of controlled corporation	3,231,593,984 (L)	31.40%
		36,679,681 (S)	0.36%
MCS Holding LLC (Note 1)	Interest of controlled corporation	3,231,593,984 (L)	31.40%
		36,679,681 (S)	0.36%
Novel Holdings Group Limited (Note 1)	Interest of controlled corporation/ Beneficial owner	3,693,241,531 (L)	35.89%
		36,679,681 (S)	0.36%
Trimunkh Limited (Note 1)	Interest of controlled corporation/ Beneficial owner	3,497,356,251 (L)	33.98%
		142,984,588 (S)	1.39%
Ms. Batmunkh Dashdeleg (Note 1)	Interest of spouse	3,693,241,531 (L)	35.89%
		36,679,681 (S)	0.36%
Ms. Munkhsuren Surenkhoo (Note 1)	Interest of spouse	3,497,356,251 (L)	33.98%
		142,984,588 (S)	1.39%
Kerry Mining (UHG) Limited ("KMUHG") (Note 2)	Beneficial owner	750,000,000 (L)	7.29%
KMM (Note 2)	Interest of controlled corporation	750,000,000 (L)	7.29%
Fexos Limited ("Fexos") (Note 2)	Interest of controlled corporation	756,890,120 (L)	7.35%
Kerry Holdings Limited ("KHL") (Note 2)	Interest of controlled corporation	775,780,883 (L)	7.54%
Kerry Group Limited ("KGL") (Notes 2 and 3)	Interest of controlled corporation	1,216,351,874 (L)	11.82%

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

Notes:

- (1) MCS Mining Group Limited is owned as to approximately 39.16% by MCS Holding LLC and proximately 60.84% by MCS (Mongolia) Limited. MCS Holding LLC is wholly-owned by MCS Global Limited which in turn is wholly-owned by MCS (Mongolia) Limited. MCS (Mongolia) Limited is owned as to approximately 49.84% by Novel Holdings Group Limited which in turn is wholly-owned by Mr. Odjargal Jambaljamts, and 28.69% by Trimunkh Limited which in turn is wholly-owned by Mr. Od Jambaljamts. MCS Mining Group Limited holds 3,231,593,984 shares and had a short position in 36,679,681 shares in the Company. Novel Holdings Group Limited and Trimunkh Limited each also directly held 461,647,547 shares and 265,762,267 shares in the Company, and Trimunkh Limited had a short position in 106,304,907 shares in the Company. Ms. Batmunkh Dashdeleg is the spouse of Mr. Odjargal Jambaljamts, and Ms. Munkhsuren Surenkhuu is the spouse of Mr. Od Jambaljamts.
- (2)
  - (a) KMUHG is a direct wholly-owned subsidiary of KMM. Fexos controls more than one-third of the voting power of KMM. Fexos is a direct wholly-owned subsidiary of KHL which in turn is a direct wholly-owned subsidiary of KGL. Accordingly, KMM, Fexos, KHL and KGL were deemed to be interested in the 750,000,000 shares of the Company that KMUHG was interested.
  - (b) Fexos controls more than one-third of the voting power of Kerry Asset Management Limited ("**KAM**"). Fexos, KHL and KGL were deemed to be interested in the 6,890,120 shares of the Company that KAM was interested.
- (3) Out of KGL's corporate interest in 1,216,351,874 shares of the Company, KGL's wholly-owned subsidiaries (other than KHL) were interested in 440,570,991 shares of the Company, KHL (through companies that it controls more than one-third of the voting power) was interested in 775,780,883 shares of the Company.

Save as disclosed above, as at 30 June 2017, the Company has not been notified by any person (other than the Directors or chief executive of the Company) who had interests or short position in the shares or underlying shares of the Company.

## CHANGES OF INFORMATION OF DIRECTORS

Changes of information of Directors which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the date of the 2016 Annual Report are set out below:

The two executive Directors, namely Mr. Odjargal Jambaljamts and Dr. Battengel Gotov, have entered into new service agreements with the Company for a fixed term of three years commencing from 1 June 2017 at a director's fee of USD1,200,000 and USD800,000 per annum respectively.

Mr. Od Jambaljamts ceased to be the president and was re-designated as a member of the Board of Ulaanbaatar Chamber of Commerce with effect from January 2017.

Dr. Khashchuluun Chuluundorj was appointed as an independent director of Mongolian Mortgage Corporation, a company listed on the Mongolian Stock Exchange, with effect from June 2017. Dr. Khashchuluun was also appointed as an independent director of Practical Insurance LLC with effect from April 2017.

Mr. Chan Tze Ching, Ignatius was appointed as chairman of PRASAC Microfinance Institution with effect from 14 March 2017.

## ISSUE OF NEW SHARES

On 4 May 2017, a total number of 1,029,176,615 shares of the Company were allotted and issued at the subscription price of HKD0.229 per share, the closing price of the Company's shares on 4 May 2017, for net proceeds of USD30,285,066 which have been credited to share capital and capital premium accounts.

The new shares were allotted and issued to the New Shares Recipients as defined in the Company's announcement dated 26 April 2017 under the general mandate granted to the Directors at the AGM of the Company held on 31 May 2016. No cash proceeds were received by the Company in consideration for the issue of the new shares which were issued as part of the Debt Restructuring to refinance certain of the Company's then-existing indebtedness.

For further details, please refer to the Company's announcements dated 26 April 2017 and 28 April 2017.

## SHARE OPTION SCHEME

The Share Option Scheme was adopted by the Company on 17 September 2010, which became effective on the Listing Date on 13 October 2010 (the "**Adoption Date**"). Share Options could be granted within a period of 10 years from the Adoption Date. Therefore, as at 30 June 2017, the remaining life of the Share Option Scheme was approximately 3 years and 3 months. The purpose of the Share Option Scheme is to provide an opportunity for employees of the Group to acquire an equity participation in the Company and to encourage them to work towards enhancing the value of the Company for the benefit of the Company and its shareholders as a whole.



# Disclosure of Information

Under the Share Option Scheme, the Company granted four batches of Share Options to its Director and employees. On 12 October 2011, the Company offered 3,000,000 and 34,500,000 Share Options to a Director and employees respectively, at the exercise price of HKD6.66, and 3,000,000 and 32,200,000 Share Options were accepted by a Director and employees respectively. On 28 November 2012, the Company granted another 5,000,000 and 17,750,000 Share Options to a Director and employees respectively with the exercise price of HKD3.92. On 10 June 2015, the Company further granted 60,000,000 and 94,750,000 Share Options to a Director and employees respectively at the exercise price of HKD0.445. On 8 May 2017, the Company granted another 40,000,000 and 100,000,000 Share Options to a Director and employees respectively at the exercise price of HKD0.2392. The closing price of the shares of the Company immediately before the grant of Share Options on 8 May 2017 was HKD0.2250.

As a result of the rights issue completed on 29 December 2014, adjustments were made to the exercise price and the number of shares falling to be issued upon the exercise of the Share Options in accordance with the terms of the Share Option

Scheme and the supplementary guidance issued by the Stock Exchange on 5 September 2005 regarding the adjustment of share options under Rule 17.03(13) of the Listing Rules. The exercise price of HKD6.66 for the Share Options granted on 12 October 2011 was adjusted to HKD4.53 and the exercise price of HKD3.92 for the Share Options granted on 28 November 2012 was adjusted to HKD2.67.

A total of 48,100,000 Options were outstanding under the Share Option Scheme as at the completion of the rights issue. The exercise prices and the number of shares falling to be issued under the outstanding Share Options were adjusted pursuant to Clause 11 of the Share Option Scheme with effect from 1 January 2015, and such adjustments have been reviewed and confirmed by the independent financial adviser of the Company, Somerley Capital Limited. Please refer to the 2014 Annual Report of the Company for details of the adjustment.

Details of the movements in the number of Share Options of the Company during the six months ended 30 June 2017 were as follows:

Table 16. Share Options – Director:

Name of Director	Date of grant	Exercise period	Exercise price per share	Balance as at 1 January 2017	Number of Share Options				Balance as at 30 June 2017
					Granted during the six months ended 30 June 2017	Lapsed during the six months ended 30 June 2017	Cancelled during the six months ended 30 June 2017	Exercised during the six months ended 30 June 2017	
Dr.	12 October 2011	(Note 1)	HKD4.53	4,411,765	-	-	-	-	4,411,765
Battsengel Gotov	28 November 2012	(Note 2)	HKD2.67	7,352,941	-	-	-	-	7,352,941
	10 June 2015	(Note 3)	HKD0.445	60,000,000	-	-	-	-	60,000,000
	8 May 2017	(Note 4)	HKD0.2392	-	40,000,000	-	-	-	40,000,000
Total				71,764,706	40,000,000	-	-	-	111,764,706

Table 17. Share Options – Employees of the Group other than Directors:

Date of grant	Exercise period	Exercise price per share	Balance as at 1 January 2017	Number of Share Options				Balance as at 30 June 2017
				Granted during the six months ended 30 June 2017	Lapsed during the six months ended 30 June 2017	Cancelled during the six months ended 30 June 2017	Exercised during the six months ended 30 June 2017	
12 October 2011	(Note 1)	HKD4.53	34,062,500	-	-	-	-	34,062,500
28 November 2012	(Note 2)	HKD2.67	24,632,353	-	-	-	-	24,632,353
10 June 2015	(Note 3)	HKD0.445	86,750,000	-	-	-	-	86,750,000
8 May 2017	(Note 4)	HKD0.2392	-	100,000,000	-	-	-	100,000,000
Total			145,444,853	100,000,000	-	-	-	245,444,853

Notes:

1. The Share Options are subject to vesting scale in four tranches of 25% each. The exercise periods are as follows:
  - (1) first 25% of the Share Options granted – 12 October 2012 to 12 October 2019
  - (2) second 25% of the Share Options granted – 12 October 2013 to 12 October 2019
  - (3) third 25% of the Share Options granted – 12 October 2014 to 12 October 2019
  - (4) fourth 25% of the Share Options granted – 12 October 2015 to 12 October 2019
  
2. The Share Options are subject to vesting scale in three tranches. The exercise periods are as follows:
  - (1) first 25% of the Share Options granted – 28 November 2013 to 28 November 2020
  - (2) second 25% of the Share Options granted – 28 November 2014 to 28 November 2020
  - (3) third 50% of the Share Options granted – 28 November 2015 to 28 November 2020
  
3. The Share Options are subject to vesting scale in four tranches of 25% each. The exercise periods are as follows:
  - (1) first 25% of the Share Options granted – 10 June 2015 to 10 June 2020
  - (2) second 25% of the Share Options granted – 10 June 2016 to 10 June 2020
  - (3) third 25% of the Share Options granted – 10 June 2017 to 10 June 2020
  - (4) fourth 25% of the Share Options granted – 10 June 2018 to 10 June 2020
  
4. The Share Options are subject to vesting scale in five tranches of 20% each. The exercise periods are as follows:
  - (1) first 20% of the Share Options granted – 1 July 2017 to 8 May 2022
  - (2) second 20% of the Share Options granted – 8 May 2018 to 8 May 2022
  - (3) third 20% of the Share Options granted – 8 May 2019 to 8 May 2022
  - (4) fourth 20% of the Share Options granted – 8 May 2020 to 8 May 2022
  - (5) fifth 20% of the Share Options granted – 8 May 2021 to 8 May 2022

On behalf of the Board

**Mongolian Mining Corporation**

**Odjargal Jambaljamts**

*Chairman*

Hong Kong, 28 August 2017

# Independent Review Report



## Independent Review Report to the Board of Directors of Mongolian Mining Corporation

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

## INTRODUCTION

We have reviewed the interim financial report set out on pages 48 to 74 which comprises the consolidated statement of financial position of Mongolian Mining Corporation (the "**Company**") as of 30 June 2017 and the related consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and condensed consolidated cash flow statement for the six months period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *Interim financial reporting*, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

# Independent Review Report

## SCOPE OF REVIEW

We conducted our review 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. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

## 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 2017 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim financial reporting*.

## MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

Without qualifying our conclusion, we draw your attention to Note 1 to the unaudited interim financial report which describes that the Company together with its subsidiaries (the "**Group**") had net current liabilities of approximately USD90,968,000 as at 30 June 2017, indicating the existence of material uncertainties which may cast significant doubt about 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 achievability of the Group's business plan and cash flow forecast for the twelve months since 30 June 2017. 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.

### KPMG

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

28 August 2017





# Consolidated Statement of Profit or Loss

For the six months ended 30 June 2017 – unaudited

	Note	Six months ended 30 June	
		2017 USD'000	2016 USD'000
Revenue	4	245,943	31,066
Cost of revenue	5	(135,335)	(64,628)
<b>Gross profit/(loss)</b>		<b>110,608</b>	(33,562)
Other revenue and other net loss		(3,047)	910
Selling and distribution costs		(27,855)	(5,707)
General and administrative expenses		(7,634)	(5,287)
<b>Profit/(loss) from operations</b>		<b>72,072</b>	(43,646)
Finance income	6(A)	14,647	18,592
Finance costs	6(A)	(19,451)	(38,487)
Net finance costs	6(A)	(4,804)	(19,895)
Gain from Debt Restructuring	7	262,968	–
Share of profits/(losses) of associates		68	(2)
Share of profits of joint venture		4	3
<b>Profit/(loss) before taxation</b>		<b>330,308</b>	(63,540)
Income tax	8	(19,240)	1,833
<b>Profit/(loss) for the period</b>		<b>311,068</b>	(61,707)
<b>Attributable to:</b>			
Equity shareholders of the Company		311,650	(61,720)
Non-controlling interests		(582)	13
<b>Profit/(loss) for the period</b>		<b>311,068</b>	(61,707)
<b>Basic and diluted earnings/(loss) per share</b>	9	<b>3.25 cents</b>	(0.67) cents

The notes on pages 54 to 74 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in Note 22(A).

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2017 – unaudited

	Note	Six months ended 30 June	
		2017 USD'000	2016 USD'000
<b>Profit/(loss) for the period</b>		<b>311,068</b>	(61,707)
<b>Other comprehensive income for the period</b>	10		
Items that may be reclassified subsequently to profit or loss:			
Surplus on revaluation of plants, buildings, and machinery and equipment		<b>21,201</b>	–
Exchange differences on translation		<b>13,679</b>	10,750
<b>Total comprehensive income for the period</b>		<b>345,948</b>	(50,957)
<b>Attributable to:</b>			
Equity shareholders of the Company		<b>346,530</b>	(50,970)
Non-controlling interests		<b>(582)</b>	13
<b>Total comprehensive income for the period</b>		<b>345,948</b>	(50,957)

The notes on pages 54 to 74 form part of this interim financial report.



# Consolidated Statement of Financial Position

At 30 June 2017 – unaudited

	Note	At 30 June 2017 USD'000	At 31 December 2016 USD'000 <i>(audited)</i>
<b>Non-current assets</b>			
Property, plant and equipment, net	11	<b>828,082</b>	776,464
Construction in progress	12	<b>80,318</b>	79,976
Lease prepayments		<b>56</b>	53
Intangible assets	13	<b>509,204</b>	509,221
Interest in associates		<b>104</b>	32
Interest in joint venture		<b>66</b>	58
Other non-current assets	14	<b>64,301</b>	61,917
Deferred tax assets		<b>19,011</b>	35,341
<b>Total non-current assets</b>		<b>1,501,142</b>	1,463,062
<b>Current assets</b>			
Assets held for sale		<b>189</b>	131
Inventories	15	<b>46,133</b>	42,181
Trade and other receivables	16	<b>88,521</b>	58,751
Cash at bank and in hand	17	<b>5,994</b>	12,268
<b>Total current assets</b>		<b>140,837</b>	113,331
<b>Current liabilities</b>			
Short-term borrowings and current portion of long-term borrowings	19	<b>–</b>	93,000
Trade and other payables	18	<b>231,307</b>	342,196
Senior notes	20	<b>–</b>	599,692
Current taxation		<b>498</b>	269
<b>Total current liabilities</b>		<b>231,805</b>	1,035,157
<b>Net current liabilities</b>		<b>(90,968)</b>	(921,826)
<b>Total assets less current liabilities</b>		<b>1,410,174</b>	541,236

The notes on pages 54 to 74 form part of this interim financial report.

# Consolidated Statement of Financial Position

At 30 June 2017 – unaudited (Continued)

	Note	At 30 June 2017 USD'000	At 31 December 2016 USD'000 <i>(audited)</i>
<b>Non-current liabilities</b>			
Long-term borrowings, less current portion	19	30,968	–
Senior notes	20	424,943	–
Provisions	21	14,335	13,585
Deferred tax liabilities		152,454	150,176
Other non-current liabilities		3,226	46,166
<b>Total non-current liabilities</b>		<b>625,926</b>	209,927
<b>NET ASSETS</b>		<b>784,248</b>	331,309
<b>CAPITAL AND RESERVES</b>			
Share capital	22	102,918	92,626
Perpetual notes	22	75,897	–
Reserves	22	605,417	238,085
<b>Total equity attributable to equity shareholders of the Company</b>		<b>784,232</b>	330,711
<b>Non-controlling interests</b>		<b>16</b>	598
<b>TOTAL EQUITY</b>		<b>784,248</b>	331,309

The notes on pages 54 to 74 form part of this interim financial report.



# Consolidated Statement of Changes in Equity

For the six months ended 30 June 2017 – unaudited

	Attributable to equity shareholders of the Company									
	Share capital USD'000 (Note 22(B))	Share premium USD'000	Other reserve USD'000	Exchange reserve USD'000	Property revaluation reserve USD'000	Accumulated losses USD'000	Total USD'000	Perpetual notes USD'000 (Note 22(D))	Non-controlling interest USD'000	Total equity USD'000
<b>At 1 January 2016</b>	92,626	748,527	33,837	(334,794)	-	(350,747)	189,449	-	342	189,791
<b>Changes in equity for the six months ended 30 June 2016:</b>										
Loss for the period	-	-	-	-	-	(61,720)	(61,720)	-	13	(61,707)
Other comprehensive income	-	-	-	10,750	-	-	10,750	-	-	10,750
Total comprehensive income	-	-	-	10,750	-	(61,720)	(50,970)	-	13	(50,957)
Equity-settled share-based transactions	-	-	799	-	-	-	799	-	-	799
<b>At 30 June 2016</b>	92,626	748,527	34,636	(324,044)	-	(412,467)	139,278	-	355	139,633
<b>At 1 July 2016</b>	92,626	748,527	34,636	(324,044)	-	(412,467)	139,278	-	355	139,633
<b>Changes in equity for the six months ended 31 December 2016:</b>										
Loss for the period	-	-	-	-	-	(92,528)	(92,528)	-	243	(92,285)
Other comprehensive income	-	-	-	(58,254)	341,819	-	283,565	-	-	283,565
Total comprehensive income	-	-	-	(58,254)	341,819	(92,528)	191,037	-	243	191,280
Equity-settled share-based transactions	-	-	396	-	-	-	396	-	-	396
<b>At 31 December 2016</b>	92,626	748,527	35,032	(382,298)	341,819	(504,995)	330,711	-	598	331,309
<b>At 1 January 2017</b>	92,626	748,527	35,032	(382,298)	341,819	(504,995)	330,711	-	598	331,309
<b>Changes in equity for the six months ended 30 June 2017:</b>										
Profit for the period	-	-	-	-	-	311,650	311,650	-	(582)	311,068
Other comprehensive income	-	-	-	13,679	21,201	-	34,880	-	-	34,880
Total comprehensive income	-	-	-	13,679	21,201	311,650	346,530	-	(582)	345,948
Issuance of perpetual notes	-	-	-	-	-	-	-	75,897	-	75,897
Issuance of shares	10,292	19,993	-	-	-	-	30,285	-	-	30,285
Equity-settled share-based transactions	-	-	809	-	-	-	809	-	-	809
Reclassification of property revaluation reserve to accumulated losses upon disposal of property	-	-	-	-	(115)	115	-	-	-	-
<b>At 30 June 2017</b>	102,918	768,520	35,841	(368,619)	362,905	(193,230)	708,335	75,897	16	784,248

The notes on pages 54 to 74 form part of this interim financial report.

# Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2017 – unaudited

	Note	Six months ended 30 June	
		2017 USD'000	2016 USD'000
<b>Operating activities</b>			
Cash generated from operations		28,421	8,661
Income tax paid		(331)	(11)
<b>Net cash generated from operating activities</b>		<b>28,090</b>	8,650
<b>Investing activities</b>			
Payments for acquisition of property, plant and equipment and construction in progress		(34,517)	(568)
Proceeds from disposal of assets held for sale		43	318
Interest received		–	3,487
Other cash flows generated from investing activities		–	50,000
<b>Net cash (used in)/generated from investing activities</b>		<b>(34,474)</b>	53,237
<b>Financing activities</b>			
Repayment of borrowings		–	(55,331)
Interest paid		–	(4,363)
<b>Net cash used in financing activities</b>		<b>–</b>	(59,694)
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(6,384)</b>	2,193
<b>Cash and cash equivalents at the beginning of the period</b>		<b>12,268</b>	702
<b>Effect of foreign exchange rates changes</b>		<b>110</b>	87
<b>Cash and cash equivalents at the end of the period</b>	17	<b>5,994</b>	2,982

The notes on pages 54 to 74 form part of this interim financial report.



# Notes to the Unaudited Interim Financial Report

## 1 BASIS OF PREPARATION

The Group had net current liabilities of approximately USD90,968,000 as at 30 June 2017 (as at 31 December 2016: USD921,826,000). This condition continues to indicate the existence of a material uncertainty which may cast significant doubt upon the going concern assumption.

With the completion of the Debt Restructuring in May 2017 and assuming that the Group's business plan and cash flow forecast can be achieved, the Directors expect to have sufficient financial resources to cover its operating costs and to meet its financing commitments, as and when they fall due for the twelve months since 30 June 2017. Accordingly, the Directors consider that it is appropriate to prepare this interim financial report on a going concern basis. The interim financial report does not include adjustments that would result should the Group be unable to continue as a going concern.

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), including compliance with International Accounting Standard 34, *Interim financial reporting*, ("**IAS 34**") issued by the International Accounting Standards Board ("**IASB**"). It was authorised for issuance on 28 August 2017.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2016 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2017 annual financial statements. Details of these changes in accounting policies are set out in Note 2.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2016 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards ("**IFRSs**").

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 ("**HKICPA**"). KPMG's independent review report to the Board is included on pages 46 to 47.

The financial information relating to the financial year ended 31 December 2016 that is included in the interim financial information as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. The Company's auditor has reported on those financial statements. In the auditor's report dated 22 March 2017, the auditor expressed an unqualified opinion on those financial statements but included a section which drew attention to material uncertainties relating to the Group's ability to continue as a going concern.

# Notes to the Unaudited Interim Financial Report

## 2 CHANGES IN ACCOUNTING POLICIES

The IASB has issued several amendments to IFRSs that are first effective for the current accounting period of the Group. None of these developments has had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report.

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

## 3 SEGMENT REPORTING

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

## 4 REVENUE

The Group is principally engaged in the mining, processing, transportation and sale of coal products. Revenue represents the sales value of goods sold to customers exclusive of value added or sales taxes and after deduction of any trade discounts and volume rebates. The amount of each significant category of revenue recognised for the six months ended 30 June 2017 is as follows:

	Six months ended 30 June	
	2017 USD'000	2016 USD'000
HCC	240,821	31,066
Washed thermal coal ("middlings")	5,122	–
	<b>245,943</b>	31,066

## 5 COST OF REVENUE

	Six months ended 30 June	
	2017 USD'000	2016 USD'000
Mining costs	47,866	11,224
Processing costs	19,283	6,994
Transportation costs	39,528	8,155
Provision for coal inventories (Note 15)	–	11,837
Others (Note)	28,658	8,559
Cost of revenue during mine operations	135,335	46,769
Cost of revenue during idled mine period	–	17,859
Cost of revenue	<b>135,335</b>	64,628

Note: Others include royalty tax on the coal sold.





# Notes to the Unaudited Interim Financial Report

## 6 PROFIT/(LOSS) BEFORE TAXATION

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

### (A) NET FINANCE COSTS:

	Six months ended 30 June	
	2017 USD'000	2016 USD'000
Interest income	(10)	(1,235)
Net change in fair value of derivative component of Senior Notes and Senior Loan	(1,292)	–
Foreign exchange gain, net (Note (i))	(13,345)	(17,357)
<b>Finance income</b>	<b>(14,647)</b>	<b>(18,592)</b>
Interest on liability component of bank and other borrowings (Note 19)	1,393	9,229
Interest on liability component of Senior Notes (Note 20)	17,686	27,478
Transaction costs	235	1,601
Unwinding interest on accrued reclamation obligations (Note 21)	137	179
<b>Finance costs</b>	<b>19,451</b>	<b>38,487</b>
<b>Net finance costs</b>	<b>4,804</b>	<b>19,895</b>

Notes:

- (i) Foreign exchange gain (net) during the six months ended 30 June 2017 represents net foreign exchange gain of approximately USD13,345,000 in respect of certain liabilities.

Foreign exchange gain (net) during the six months ended 30 June 2016 includes realised foreign exchange gain of approximately USD18,384,000 in respect of certain receivables.

- (ii) No borrowing costs have been capitalised during the six months ended 30 June 2017 and 2016.

### (B) OTHER ITEMS:

	Six months ended 30 June	
	2017 USD'000	2016 USD'000
Depreciation and amortisation	23,713	17,117
Operating lease charges: minimum lease payments	613	236
Costs of inventories	135,335	64,628
Loss on disposal of property, plant and equipment and assets held for sale	49	65

# Notes to the Unaudited Interim Financial Report

## 7 GAIN FROM DEBT RESTRUCTURING

The Group was due to redeem the senior notes issued by the Company with a principal amount of USD600,000,000 on 29 March 2017. The Group was due to repay the secured interest-bearing borrowings from BNP Paribas Singapore Branch and Industrial and Commercial Bank of China Limited (collectively, the "**Lenders**") with a principal amount of USD93,000,000 (the "**BNP and ICBC Facility**") within the year ended 31 December 2016. The Group was in payment default of interest under the senior notes with principal amount of USD600,000,000 and also in payment default of the BNP and ICBC Facility. In addition, the Group was overdue in repaying promissory notes of USD72,216,000 to QGX Holding Ltd. ("**QGX**"). The Group commenced the Debt Restructuring with the holders of the senior notes, Lenders, and QGX (collectively "**Creditors**") in 2016.

On 4 May 2017, the Group completed the Debt Restructuring and the outstanding principal and accrued interest of the senior notes, BNP and ICBC Facility and the promissory notes issued to QGX were restructured to (i) 1,029,176,615 shares of the Company (Note 22(B)) booked at its market value of USD30,285,066 based on the closing price of the Company's shares of HKD0.229 on 4 May 2017, (ii) perpetual notes with principal amount of USD195,000,000 (Note 22(D)) booked at its fair value of USD75,897,000, (iii) first ranking senior secured facility with principal amount of USD31,200,000 (the "**Senior Loan**") (Note 19) booked at its fair value of USD30,960,000, including a derivative component of interest rate linked to the benchmark coal price index booked at its fair value of USD1,754,000, and (iv) new senior secured notes with principal amount of USD412,465,892 (the "**Senior Notes**") (Note 20) booked at its fair value of USD425,267,000, including a derivative component of interest rate linked to the benchmark coal price index booked at its fair value of USD9,481,667 and a derivative component of cash sweep premium booked at its fair value of USD37,789,333.

The excess of carrying value of the restructured financial liabilities over the fair value of the consideration to settle the restructured financial liabilities, amounting to approximately USD262,968,000, net of expenses incurred in relation to the Debt Restructuring of USD30,185,000, has been recognised by the Group as a gain from the Debt Restructuring and credited to profit or loss during the six months ended 30 June 2017.



# Notes to the Unaudited Interim Financial Report

## 8 INCOME TAX

### (A) INCOME TAX IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME REPRESENTS:

	Six months ended 30 June	
	2017	2016
	USD'000	USD'000
Current tax	2,328	169
Deferred taxation	16,912	(2,002)
	19,240	(1,833)

### (B) RECONCILIATION BETWEEN TAX EXPENSE AND ACCOUNTING LOSS AT APPLICABLE TAX RATES:

	Six months ended 30 June	
	2017	2016
	USD'000	USD'000
Profit/(loss) before income tax	330,308	(63,540)
Notional tax on profit/(loss) before taxation	78,451	(1,062)
Tax effect of non-deductible items (Note (iii))	515	8,193
Tax effect of non-taxable items (Note (iii))	(59,834)	(9,191)
Tax losses not recognised	108	227
Actual tax expenses	19,240	(1,833)

#### Notes:

- (i) Pursuant to the income tax rules and regulations of Mongolia, the Group is liable to Mongolian Corporate Income Tax at a rate of 10% of the first MNT3 billion taxable income, and 25% of the remaining taxable income for the six months ended 30 June 2017 and 2016. According to the Corporate Income Tax Law of the PRC, the Company's subsidiary in the PRC is subject to statutory income tax rate of 25%.
- (ii) Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands. The Group is not subject to Hong Kong and Luxembourg profits tax as it has no assessable income arising in or derived from Hong Kong and Luxembourg during the six months ended 30 June 2017 and 2016.
- (iii) Non-deductible and non-taxable items represent mainly the gain from the Debt Restructuring and unrealised exchange gain which are 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 2017 and 2016.

# Notes to the Unaudited Interim Financial Report

## 9 EARNINGS/LOSS PER SHARE

### (A) BASIC EARNINGS/LOSS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2017 is based on the profit attributable to ordinary equity shareholders of the Company for the period of USD311,650,000 (six months ended 30 June 2016: loss attributable to ordinary equity shareholders of the Company of USD61,720,000) and the 10,291,767,865 ordinary shares (six months ended 30 June 2016: 9,262,591,250 ordinary shares) in issue during the six months ended 30 June 2017. In calculating the earnings/loss per share, the weighted average number of shares outstanding during the six months ended 30 June 2017 and 2016 were calculated as if the bonus elements without consideration included in the shares issue had existed from the beginning of the comparative period.

### (B) DILUTED EARNINGS/LOSS PER SHARE

For the six months ended 30 June 2017, basic and diluted earnings per share are the same.

The equity-settled share-based payment transactions are anti-dilutive and therefore not included in calculating diluted loss per share for the six months ended 30 June 2016.

## 10 OTHER COMPREHENSIVE INCOME

	Six months ended 30 June	
	2017 USD'000	2016 USD'000
Surplus on revaluation of plants, buildings and machinery and equipment:		
– exchange differences on translation of revaluation surplus	21,201	–
Exchange differences on translation of:		
– financial statements of overseas subsidiaries	(21,025)	(3,607)
– net investment	34,704	13,379
Reclassification adjustments for amounts transferred to profit or loss:		
– disposal of net investment	–	978
	<b>34,880</b>	10,750



# Notes to the Unaudited Interim Financial Report

## 11 PROPERTY, PLANT AND EQUIPMENT

Mining properties of the Group at 30 June 2017 include stripping activity assets with a carrying book value of USD220,339,000 (31 December 2016: USD190,400,000).

During the six months ended 30 June 2017, the additions of property, plant and equipment of the Group, representing mainly various mining structures, amounted to USD29,496,000 (six months ended 30 June 2016: USD6,643,000). Items of property, plant and equipment with a net book value of USD92,000 were disposed of during the six months ended 30 June 2017 (six months ended 30 June 2016: USD1,606,000).

As at 30 June 2017, certain of the Group's borrowings were secured by the Group's coal handling and preparation plant-modules I and II, power plant and certain water supply infrastructure assets with a net book value of USD215,787,000, USD61,117,000, and USD4,912,000, respectively. As at 31 December 2016, no borrowings were secured by the Group's property, plant and equipment.

## 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 mining right acquired during the acquisition of BN mine.

## 14 OTHER NON-CURRENT ASSETS

	<b>At 30 June 2017 USD'000</b>	At 31 December 2016 USD'000 <i>(audited)</i>
Prepayments in connection with construction work, equipment purchases and others	<b>62,798</b>	60,499
Financial assets available-for-sale	<b>1,503</b>	1,418
	<b>64,301</b>	61,917

# Notes to the Unaudited Interim Financial Report

## 15 INVENTORIES

(A) INVENTORIES IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION COMPRISE:

	<b>At 30 June 2017 USD'000</b>	At 31 December 2016 USD'000 <i>(audited)</i>
Coal	<b>42,602</b>	37,606
Materials and supplies	<b>13,968</b>	15,012
	<b>56,570</b>	52,618
Less: Provision on coal inventories	<b>(10,437)</b>	(10,437)
	<b>46,133</b>	42,181

(B) THE ANALYSIS OF THE AMOUNT OF INVENTORIES RECOGNISED AS AN EXPENSE AND INCLUDED IN PROFIT OR LOSS IS AS FOLLOWS:

	<b>Six months ended 30 June 2017 USD'000</b>	2016 USD'000
Carrying amount of inventories sold	<b>135,335</b>	34,932
Write down of inventories	<b>–</b>	11,837
	<b>135,335</b>	46,769

As at 30 June 2017, certain of the Group's borrowings were secured by the Group's coal inventory of USD25,383,000 (31 December 2016: USD26,358,000).



# Notes to the Unaudited Interim Financial Report

## 16 TRADE AND OTHER RECEIVABLES

As of the end of the reporting period, the ageing analysis of trade debtors and bills receivable (which are included in trade and other receivables), based on the invoice date and net of allowance for doubtful debts, is as follows:

	<b>At 30 June 2017 USD'000</b>	At 31 December 2016 USD'000 <i>(audited)</i>
Within 3 months	<b>22,630</b>	11,786
3 to 12 months	–	–
Over 12 months	–	21
Trade receivables net of allowance for doubtful debts	<b>22,630</b>	11,807
Amounts due from related parties	<b>1</b>	1
Other debtors	<b>759</b>	778
Receivables	<b>23,390</b>	12,586
Prepayments and deposits (Note (i))	<b>33,844</b>	29,623
VAT and other tax receivables (Note (ii))	<b>31,287</b>	16,542
	<b>88,521</b>	58,751

Notes:

- (i) At 30 June 2017 and 31 December 2016, prepayments and deposits mainly represent the prepayments made to the Group's mining contractor.
- (ii) 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.

# Notes to the Unaudited Interim Financial Report

## 17 CASH AT BANK AND IN HAND

	<b>At 30 June 2017 USD'000</b>	At 31 December 2016 USD'000 <i>(audited)</i>
Cash in hand	<b>3</b>	5
Cash at bank	<b>5,991</b>	12,263
Cash and cash equivalents in the consolidated statement of financial position and the consolidated cash flow statement	<b>5,994</b>	12,268

As at 30 June 2017, certain of the Group's borrowings were secured by the Group's cash at bank of USD1,700 (31 December 2016: USD1,800).

## 18 TRADE AND OTHER PAYABLES

As of the end of the reporting period, the ageing analysis of trade creditors and bills payables (which are included in trade and other payables), based on the invoice date, is as follows:

	<b>At 30 June 2017 USD'000</b>	At 31 December 2016 USD'000 <i>(audited)</i>
Within 3 months	<b>62,074</b>	27,458
3 to 6 months	<b>310</b>	3,831
6 to 12 months	<b>21,677</b>	2,514
Over 12 months	<b>74,704</b>	70,776
Total creditors and bills payable	<b>158,765</b>	104,579
Payables for purchase of equipment	<b>618</b>	2,643
Security deposit on construction work	<b>148</b>	355
Interest payables	<b>8,873</b>	81,846
Other taxes payables	<b>29,271</b>	8,777
Promissory notes	<b>–</b>	72,216
Others	<b>5,782</b>	16,062
Amounts due to related parties	<b>14,671</b>	14,680
Financial liabilities measured at amortised cost	<b>218,128</b>	301,158
Receipts in advance	<b>13,179</b>	41,038
	<b>231,307</b>	342,196





# Notes to the Unaudited Interim Financial Report

## 19 BORROWINGS

### (A) THE GROUP'S LONG TERM INTEREST-BEARING BORROWINGS COMPRISE:

	<b>At 30 June 2017 USD'000</b>	At 31 December 2016 USD'000 <i>(audited)</i>
Senior Loan	<b>30,968</b>	–
Bank loan	–	93,000
Less: Current portion of long-term borrowings less amortised transaction costs	–	(93,000)
	<b>30,968</b>	–

On 4 May 2017, the Group issued the Senior Loan with principal amount of USD31,200,000 and with fair value of USD30,960,000. The Senior Loan bears interest, ranging from 5% to 8% per annum based on the benchmark coal price index, payable semi-annually. The Senior Loan is repayable in quarterly instalment of USD7,500,000 starting from 31 December 2018 with the remaining principal repayable upon maturity in September 2019.

The Senior Loan has been accounted for as a hybrid financial instrument containing a derivative component and a liability component. The derivative component of interest rate linked to the benchmark coal price index was initially recognised at its fair value of USD1,754,000. The fair value of the derivative component of interest rate linked to the benchmark coal price index as at 30 June 2017 was USD1,621,000. The liability component was initially recognised at its fair value of USD29,206,000 and will be accounted on amortised cost subsequently.

The Group pledged collection accounts and certain coal stockpiles under the Senior Loan. In addition, the Group pledged debt reserve account, certain assets (Note 11) and share capital of Mongolian Coal Corporation Limited, Mongolian Coal Corporation S.à.r.l., Enrestechology LLC, Ukhaa Khudag Water Supply LLC and United Power LLC, which are shared among the creditors of the Senior Loan and Senior Notes (Note 20).

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

	<b>At 30 June 2017 USD'000</b>	At 31 December 2016 USD'000 <i>(audited)</i>
Within 1 year or on demand	–	93,000
After 1 year but within 2 years	<b>22,500</b>	–
After 2 years but within 5 years	<b>8,468</b>	–
	<b>30,968</b>	93,000

# Notes to the Unaudited Interim Financial Report

## 19 BORROWINGS (Continued)

### (B) THE GROUP'S SHORT-TERM INTEREST-BEARING BORROWINGS COMPRISE:

	<b>At 30 June 2017 USD'000</b>	At 31 December 2016 USD'000 <i>(audited)</i>
Current portion of long-term borrowings		
– Bank loan	–	93,000
Less: Unamortised transaction costs	–	–
	<b>–</b>	<b>93,000</b>

The current portion of the long-term borrowings as at 31 December 2016 consisted of USD93.0 million due under the BNP and ICBC Facility which was fully restructured by the Debt Restructuring (Note 7).

## 20 SENIOR NOTES

	<b>At 30 June 2017 USD'000</b>	At 31 December 2016 USD'000 <i>(audited)</i>
Senior Notes	<b>424,943</b>	–
Senior notes (pre-restructuring)	–	599,692
	<b>424,943</b>	<b>599,692</b>

On 4 May 2017, the Group issued the Senior Notes with principal amount of USD412,465,892 and with fair value of USD425,267,000. The Senior Notes bear interest, ranging from 5% to 8% per annum based on the benchmark coal price index, payable semi-annually, and will be due in September 2022.

The Senior Notes have been accounted for as a hybrid financial instrument containing a derivative component and a liability component. The derivative component of interest rate linked to the benchmark coal price index was initially recognised at its fair value of USD9,481,667 and the derivative component of cash sweep premium was initially recognised at its fair value of USD37,789,333. The fair value of the derivative component of interest rate linked to the benchmark coal price index, the derivative component of cash sweep premium and the derivative component of early redemption option as at 30 June 2017 was USD6,888,667, USD39,223,000 and nil respectively. The liability component was initially recognised at its fair value of USD377,996,000 and will be accounted on amortised cost subsequently.

Fair value of the Senior Loan and the Senior Notes were valued by the Directors with the reference to a valuation report issued by an external valuer based on the discounted cash flow method.



# Notes to the Unaudited Interim Financial Report

## 20 SENIOR NOTES *(Continued)*

The Group pledged debt reserve account, certain assets (Note 11) and share capital of Mongolian Coal Corporation Limited, Mongolian Coal Corporation S.à.r.l., Enrestechology LLC, Ukhaa Khudag Water Supply LLC and United Power LLC, which are shared among the creditors of the Senior Loan (Note 19) and Senior Notes.

## 21 PROVISIONS

	<b>At 30 June 2017 USD'000</b>	At 31 December 2016 USD'000 <i>(audited)</i>
Accrued reclamation obligations	<b>14,335</b>	13,585
Others	<b>1,500</b>	1,500
	<b>15,835</b>	15,085
Less: Current portion	<b>(1,500)</b>	(1,500)
	<b>14,335</b>	13,585

The accrual for reclamation costs has been determined based on management's best estimates. The estimate of the associated costs may be subject to change in the near term when the reclamation on the land from current mining activities becomes apparent in future periods. At the balance sheet date, the Group reassessed the estimated costs and adjusted the accrued reclamation obligations, where necessary. The Group's management believes that the accrued reclamation obligations at 30 June 2017 are adequate and appropriate. The accrual is based on estimates and therefore, the ultimate liability may exceed or be less than such estimates. The movement of the accrued reclamation cost is as follows:

	<b>2017 USD'000</b>	2016 USD'000 <i>(audited)</i>
At 1 January	<b>13,585</b>	13,567
Adjustment of estimations	<b>(196)</b>	2,805
Accretion expense (Note 6(A))	<b>137</b>	338
Exchange adjustments	<b>809</b>	(3,125)
At 30 June/31 December	<b>14,335</b>	13,585

# Notes to the Unaudited Interim Financial Report

## 22 CAPITAL, RESERVES AND DIVIDENDS

### (A) DIVIDENDS

The Board does not recommend declaration and payment of interim dividend in respect of the six months ended 30 June 2017 (six months ended 30 June 2016: nil).

### (B) ISSUE OF NEW SHARES

On 4 May 2017, a total number of 1,029,176,615 shares were allotted and issued at the subscription price of HKD0.229 per share, the closing price of the Company's shares on 4 May 2017, for net proceeds of USD30,285,066 which have been credited to share capital and capital premium accounts.

The new shares were allotted and issued under the general mandate granted to the Directors at the annual general meeting of the Company held on 31 May 2016. No cash proceeds were received by the Company in consideration for the issue of the new shares which are being issued as part of the Debt Restructuring to refinance certain of the Company's then-existing indebtedness.

### (C) EQUITY-SETTLED SHARE-BASED TRANSACTIONS

On 8 May 2017, 140,000,000 Share Options were granted to a director and the employees of the Company under the Share Option Scheme (no Share Options were granted during the six months ended 30 June 2016). Each option gives the holder the right to subscribe for one ordinary share of the Company. These Share Options will vest on 1 July 2017, 8 May 2018, 8 May 2019, 8 May 2020 and 8 May 2021 separately of 20% each, and then be exercisable until 8 May 2022. The exercise price is HKD0.2392, being the average closing price of the Company's ordinary shares five business days immediately preceding the date of grant.

No options were exercised during the six months ended 30 June 2017 (six months ended 30 June 2016: nil).

### (D) PERPETUAL NOTES

The Company issued perpetual notes which were listed on the Singapore Exchange Securities Trading Limited on 4 May 2017, with principal amount of USD195,000,000 and with fair value of USD75,897,000.

The perpetual notes have no fixed maturity and are redeemable at the Company's option on or after all amounts due under the Senior Loan has been fully repaid. The distribution payments can be deferred at the discretion of the Company. So long as the perpetual notes are outstanding, the Company shall not declare or pay any dividend or make any distribution on or with respect to its capital shares; or redeem, reduce, cancel, buy-back or acquire for any consideration any of its capital shares.

Fair value of the perpetual notes was valued by the management with the reference to a valuation report issued by an independent valuer based on the discounted cash flow method.



# Notes to the Unaudited Interim Financial Report

## 23 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

### (A) FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

#### (I) FAIR VALUE HIERARCHY

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, *Fair Value Measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

The Group has a team headed by the finance manager performing valuations for the financial instruments, including the redemption option embedded in the senior notes, derivative components of the Senior Notes and derivative component of the Senior Loan. The team reports directly to the chief financial officer. A valuation report with analysis of changes in fair value measurement is prepared by the team at each interim and annual reporting date, and is reviewed and approved by the chief financial officer. Discussion of the valuation process and results with the chief financial officer is held twice a year, to coincide with the reporting dates.

	Fair value measurements as at 30 June 2017 categorised into			
	Fair value at 30 June 2017 USD'000	Level 1 USD'000	Level 2 USD'000	Level 3 USD'000
	<b>Recurring fair value measurement</b>			
Financial liabilities				
– Derivative components of Senior Notes	46,112	–	–	46,112
– Derivative component of Senior Loan	1,621	–	–	1,621

# Notes to the Unaudited Interim Financial Report

## 23 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(Continued)

### (A) FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE (Continued)

#### (I) FAIR VALUE HIERARCHY (Continued)

	Fair value measurements as at 31 December 2016 categorised into			
	Fair value at 31 December 2016 USD'000	Level 1 USD'000	Level 2 USD'000	Level 3 USD'000
	<b>Recurring fair value measurement</b>			
Financial assets				
– Redemption option embedded in senior notes	–	–	–	–

During the six months ended 30 June 2017, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (six months ended 30 June 2016: nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

#### (II) INFORMATION ABOUT LEVEL 3 FAIR VALUE MEASUREMENTS

	Valuation techniques	Significant unobservable inputs	Weighted average
Redemption option embedded in senior notes	Binomial model	Expected volatility	38%
Derivative components of Senior Notes	Discounted cash flow method	Bond yield Coal price index	7.9% USD111 to USD176
Derivative component of Senior Loan	Discounted cash flow method	Bond yield Coal price index	6.8% USD111 to USD176

The fair value of redemption option embedded in the senior notes is determined using binomial model and the significant unobservable input used in the fair value measurement is expected volatility. The fair value measurement is positively correlated to the expected volatility.



# Notes to the Unaudited Interim Financial Report

## 23 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(Continued)

### (A) FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE (Continued)

#### (II) INFORMATION ABOUT LEVEL 3 FAIR VALUE MEASUREMENTS (Continued)

The fair value of derivative components of the Senior Notes is determined using discounted cash flow method and the significant unobservable input used in the fair value measurement is bond yield and coal price index. The fair value measurement is negatively correlated to the bond yield. As at 30 June 2017, it is estimated that with all other variables held constant, a decrease/increase in bond yield by 100bps would have decreased/increased the Group's net finance costs by USD663,000. The fair value measurement is positively correlated to the coal price index. As at 30 June 2017, it is estimated that with all other variables held constant, a decrease/increase in coal price index by 1% would have increased/decreased the Group's net finance costs by USD1,228,000.

The fair value of derivative component of the Senior Loan is determined using discounted cash flow method and the significant unobservable input used in the fair value measurement is bond yield and coal price index. The fair value measurement is negatively correlated to the bond yield. As at 30 June 2017, it is estimated that with all other variables held constant, a decrease/increase in bond yield by 100bps would have decreased/increased the Group's net finance costs by USD30,000. The fair value measurement is positively correlated to the coal price index. As at 30 June 2017, it is estimated that with all other variables held constant, a decrease/increase in coal price index by 1% would have increased/decreased the Group's net finance costs by USD1,000.

The movement during the period in the balance of Level 3 fair value measurements is as follows:

	<b>At 30 June 2017 USD'000</b>	At 31 December 2016 USD'000 <i>(audited)</i>
Redemption option embedded in senior notes:		
At 1 January	-	-
Proceeds from disposal	-	-
At 30 June/31 December	-	-
Total profits or losses for the period included in profit or loss	-	-
		USD'000
Derivative components of Senior Notes:		
At 4 May 2017		47,271
Changes in fair value recognised in profit or loss during the period		(1,159)
At 30 June 2017		46,112
Total losses for the period included in profit or loss for liabilities held at the end of the reporting period		(1,159)

# Notes to the Unaudited Interim Financial Report

## 23 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(Continued)

### (A) FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE (Continued)

#### (II) INFORMATION ABOUT LEVEL 3 FAIR VALUE MEASUREMENTS (Continued)

	USD'000
Derivative component of Senior Loan:	
At 4 May 2017	1,754
Changes in fair value recognised in profit or loss during the period	(133)
At 30 June 2017	1,621
Total losses for the period included in profit or loss for liabilities held at the end of the reporting period	(133)

The net unrealised losses resulting from the remeasurement of the derivative components of the Senior Notes and derivative component of the Senior Loan are recognised in net finance costs in the consolidated statement of profit or loss.

### (B) FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES CARRIED AT OTHER THAN FAIR VALUE

The carrying amounts of the Group's financial instruments carried at cost or amortised cost were not materially different from their fair values as at 31 December 2016 and 30 June 2017 except for the following financial instruments, for which their carrying amounts and fair value are disclosed below:

	At 30 June 2017	
	Carrying amount USD'000	Fair value USD'000
Liability component of Senior Notes	378,831	369,564
Liability component of Senior Loan	29,347	29,470

## 24 MATERIAL RELATED PARTY TRANSACTIONS

Ancillary services represent expenditures for support services such as power and heat generation, management fee, security service, vehicle inspection, cleaning and canteen expense. The amount of ancillary service and related charge incurred in the six months ended 30 June 2017 is USD6,600,000 (six months ended 30 June 2016: USD5,272,000).





# Notes to the Unaudited Interim Financial Report

## 25 COMMITMENTS AND CONTINGENCIES

### (A) CAPITAL COMMITMENTS OUTSTANDING NOT PROVIDED FOR IN THE INTERIM FINANCIAL REPORT

Capital commitments outstanding at respective balance sheet dates not provided for in the interim financial report were as follows:

	<b>At 30 June 2017 USD'000</b>	At 31 December 2016 USD'000 <i>(audited)</i>
Contracted for	–	510
Authorised but not contracted for	<b>10,311</b>	–
At 30 June/31 December	<b>10,311</b>	510

### (B) ENVIRONMENTAL CONTINGENCIES

Historically, the Group has not incurred any significant expenditure for environmental remediation. Further, except for the accrued reclamation obligations as disclosed in Note 21 and amounts incurred pursuant to the environment compliance protection and precautionary measures in Mongolia, the Group has not incurred any other significant expenditure for environmental remediation, is currently not involved in any other environmental remediation, and has not accrued any other amounts for environmental remediation relating to its operations. Under existing legislation, the directors believe that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. Environmental liabilities are subject to considerable uncertainties which affect the Group's ability to estimate the ultimate cost of remediation efforts. The outcome of environmental liabilities under future environmental legislations cannot be estimated reasonably at present and which could be material.

## 26 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE SIX MONTHS ENDED 30 JUNE 2017

A number of amendments and new standards are effective for annual periods beginning after 1 January 2017 and earlier application is permitted; however, the Group has not early adopted any new or amended standards in preparing this interim financial report.

The Group has the following updates to the information provided in the last annual financial statements about the possible impacts of the new standards issued but not yet effective which may have a significant impact on the Group's consolidated financial statements.

# Notes to the Unaudited Interim Financial Report

## 26 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE SIX MONTHS ENDED 30 JUNE 2017 (Continued)

### IFRS 9, FINANCIAL INSTRUMENTS

IFRS 9 will replace the current standard on accounting for financial instruments, IAS 39, Financial instruments: Recognition and measurement. IFRS 9 introduces new requirements for classification and measurement of financial assets, calculation of impairment of financial assets and hedge accounting. On the other hand, IFRS 9 incorporates without substantive changes the requirements of IAS 39 for recognition and derecognition of financial instruments and the classification of financial liabilities. The Group has decided not to adopt IFRS 9 until it becomes mandatory on 1 January 2018. Expected impacts of the new requirements on the Group's financial statements are impairment.

The new impairment model in IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure expected credit losses as either 12-month expected credit losses or lifetime expected credit losses, depending on the asset and the facts and circumstances. This new impairment model may result in an earlier recognition of credit losses on the Group's trade receivables and other financial assets. However, a more detailed analysis is required to determine the extent of the impact.

### IFRS 15, REVENUE FROM CONTRACTS WITH CUSTOMERS

IFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. IFRS 15 will replace the existing revenue standards, IAS 18, Revenue, which covers revenue arising from sale of goods and rendering of services, and IAS 11, Construction contracts, which specifies the accounting for revenue from construction contracts. The Group is currently assessing the impacts of adopting IFRS 15 on its financial statements. Based on the preliminary assessment, the Group has identified the following areas which are likely to be affected:

#### (A) TIMING OF REVENUE RECOGNITION

Currently, revenue arising from construction contracts and the provision of services is recognised over time, whereas revenue from the sale of goods is generally recognised when the risks and rewards of ownership have passed to the customers.

Under IFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. IFRS 15 identifies 3 situations in which control of the promised good or service is regarded as being transferred over time:

- (i) when the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;
- (ii) when the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;
- (iii) when the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.



# Notes to the Unaudited Interim Financial Report

## 26 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE SIX MONTHS ENDED 30 JUNE 2017 (Continued)

### IFRS 15, REVENUE FROM CONTRACTS WITH CUSTOMERS (Continued)

#### (A) TIMING OF REVENUE RECOGNITION (Continued)

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under IFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

As a result of this change from the risk-and-reward approach to the contract-by-contract transfer-of-control approach, it is possible that once the Group adopts IFRS 15 some of the Group's contract manufacturing and residential property development activities that are currently recognised at a point in time may meet the IFRS 15 criteria for revenue recognition over time. This will depend on the terms of the sales contract and the enforceability of any specific performance clauses in that contract, which may vary depending on the jurisdiction in which the contract would be enforced. It is also possible that for the remainder of the Group's contracts the point in time when revenue is recognised may be earlier or later than under the current accounting policy. However, further analysis is required to determine whether this change in accounting policy may have a material impact on the amounts reported in any given financial reporting period.

#### (B) SIGNIFICANT FINANCING COMPONENT

IFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance or in arrears.

Currently, the Group would only apply such a policy when payments are significantly deferred, which is currently not common in the Group's arrangements with its customers. Currently, the Group does not apply such a policy when payments are received in advance.

#### (C) SALES WITH A RIGHT OF RETURN

Currently when the customers are allowed to return the products, the Group estimates the level of returns and makes an adjustment against revenue and cost of sales.

The Group expects that the adoption of IFRS 15 will not materially affect how the Group recognises revenue and cost of sales when the customers have a right of return. However, the new requirement to recognise separately a return asset for the products expected to be returned will impact the presentation in the consolidated statement of financial position as the Group currently adjusts the carrying amounts of inventory for the expected returns, instead of recognising a separate asset.

# Glossary and Technical Terms

"Adoption date"	13 October 2010, the date the Share Option Scheme became unconditional and effective
"AGM"	Annual general meeting
"ASP"	Average selling price
"bcm"	Bank cubic metres
"BHWE"	Base Horizon of Weathering Elevation
"BN"	Baruun Naran
"BN deposit"	BN coal deposit located in the Tavan Tolgoi formation
"BN mine"	The area of the BN deposit that can be mined by open pit mining methods
"Board"	The Board of Directors of the Company
"C&F"	Cost-and-Freight
"CG Code"	The Corporate Governance Code contained in Appendix 14 to the Listing Rules
"China" or "PRC"	The People's Republic of China
"CHPP"	Coal handling and preparation plant



# Glossary and Technical Terms

"coke"	Bituminous coal from which the volatile components have been removed
"coking coal"	Coal used in the process of manufacturing steel. It is also known as metallurgical coal
"Company", "our Company", "we", "us", "our" or "Mongolian Mining Corporation"	Mongolian Mining Corporation, a company incorporated in the Cayman Islands with limited liability on 18 May 2010, the shares of which are listed on the Main Board of the Stock Exchange
"CSR"	Corporate Social Responsibility
"DAP"	Delivery-at-Place
"Director(s)"	Director(s) of the Company
"Fexos"	Fexos Limited
"FOT"	Free-on-Transport
"Ganqimaodu" or "GM"	The China side of the China-Mongolia border crossing
"Gashuun Sukhait" or "GS"	The Mongolia side of the China-Mongolia border crossing
"GoM"	Government of Mongolia
"Group", "our Group"	The Company together with its subsidiaries
"HCC"	Hard coking coal
"HKD"	Hong Kong Dollar
"HSE"	Health, safety and environment
"IASB"	International Accounting Standards Board
"IASs"	International Accounting Standards

"IFRSs"	International Financial Reporting Standards
"JORC"	Joint Ore Reserves Committee of The Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia
"KAM"	Kerry Asset Management Limited
"KGL"	Kerry Group Limited
"KHL"	Kerry Holdings Limited
"km"	Kilometres
"KMM"	Kerry Mining (Mongolia) Limited
"KMUHG"	Kerry Mining (UHG) Limited
"Listing Date"	13 October 2010, the date the shares were listed on The Stock Exchange
"Listing Rules"	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"LOM"	Life-of-Mine
"LTI"	Lost Time Injuries
"LTIFR"	Lost Time Injury Frequency Rate
"MBGS"	McElroy Bryan Geological Services Pty Ltd.
"middlings"	Thermal coal by-product of washed coking coal production
"MIIT"	Ministry of Industry and Information Technology of China
"mineral resource"	A concentration or occurrence of material of intrinsic economic interest in or on the earth's crust in such form, quality and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, quality, geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral resources are sub-divided, in order of increasing geological confidence, into inferred, indicated and measured categories
"MNT"	Togrog or tugrik, the lawful currency of Mongolia
"Model Code"	The Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules



# Glossary and Technical Terms

"Mt"	Million tonnes
"NBS"	National Bureau of Statistics of China
"Norwest"	Norwest Corporation
"Offer Date"	12 October 2011, 28 November 2012, 10 June 2015 and 8 May 2017, the dates of offer of a total of 37,500,000, 22,750,000, 154,750,000 and 140,000,000 Share Options, respectively, to its Director and certain employees under the Share Option Scheme adopted by the Company
"open-pit"	The main type of mine designed to extract minerals close to the surface; also known as "open cut"
"ore"	A naturally occurring solid material from which a metal or valuable mineral can be extracted profitably
"Parliament"	Parliament of Mongolia
"raw coal"	Generally means coal that has not been washed and processed
"RMB"	Renminbi
"ROM"	Run-of-mine, the as-mined material during room and pillar mining operations as it leaves the mine site (mined glauberite ore and out-of-seam dilution material)
"seam"	A stratum or bed of coal or other mineral; generally applied to large deposits of coal
"SEHK" or "Stock Exchange"	The Stock Exchange of Hong Kong Limited
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	Ordinary share(s) of USD0.01 each in the share capital of the Company

"Share Options" or "Options"	The share options which were granted under the Share Option Scheme to eligible participants to subscribe for Shares of the Company
"Share Option Scheme"	A share option scheme which was adopted by the Company on 17 September 2010
"Share Purchase Agreement"	Share purchase agreement entered by the Company and its subsidiary Mongolian Coal Corporation Limited with Quincunx (BVI) Ltd and Kerry Mining (Mongolia) Limited in relation to the acquisition of the entire issued share capital of QGX Coal Ltd
"Shenhua"	Shenhua Group
"soum"	The second level of Mongolian administrative subdivisions (essentially equivalent to a sub-province)
"SSCC"	Semi-soft coking coal
"strip ratio" or "stripping ratio"	The ratio of the amount of waste removed (in bank cubic metres) to the amount of coal or minerals (in tonnes) extracted by open-pit mining methods
"Tavan Tolgoi"	The coal formation located in South Gobi, Mongolia which includes our UHG and BN deposits
"the Schemes"	Defined contribution retirement benefit schemes in which the Group participates
"thermal coal"	Also referred to as "steam coal" or "steaming coal", thermal coal is used in combustion processes by power producers and industrial users to produce steam for power and heat. Thermal coal tends not to have the carbonisation properties possessed by coking coals and generally has lower heat value and higher volatility than coking coal
"THG"	Tsaikhar Khudag
"TKH"	Tsagaan Khad
"tonne"	Metric tonne, being equal to 1,000 kilograms
"TRIFR"	Total Recordable Injury Frequency Rate





# Glossary and Technical Terms

"Tsogttsetsii"	Tsogttsetsii soum is the location where Tavan Tolgoi sits
"UHG"	Ukhaa Khudag
"UHG deposit"	Ukhaa Khudag deposit located in the Tavan Tolgoi coalfield which includes both aboveground (<300m) and underground (>300m) deposits
"UHG mine"	The aboveground (<300m) portion of our UHG deposit
"USD"	United States Dollar
"VAT"	Value added tax
"washed coal"	Coals that have been washed and processed to reduce its ash content
"WSA"	World Steel Association