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MONGOLIAN MINING CORPORATION

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 975)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

FINANCIAL HIGHLIGHTS

Mongolian Mining Corporation ("**MMC**" or the "**Company**") and its subsidiaries (the "**Group**") generated its record high revenue of approximately United States Dollar ("**USD**") 626.6 million during the year ended 31 December 2019, representing an increase of 6.1% compared to USD590.7 million of revenue generated during the year ended 31 December 2018.

The Group's earnings before interest, taxes, depreciation and amortization adjusted by share option expenses and other non-cash items ("**adjusted EBITDA**") for the reporting period was approximately USD241.6 million, representing an increase of 10.7% compared to the adjusted EBITDA of approximately USD218.3 million recorded for the year ended 31 December 2018.

The profit attributable to the equity shareholders of the Company for the year ended 31 December 2019 was USD96.5 million, representing an increase of 16.6% compared to USD82.8 million of profit attributable to the equity shareholders of the Company recorded for the same period in 2018.

On 26 August 2019, the Company implemented a share consolidation on the basis that every ten issued and unissued existing shares of the Company were consolidated into one consolidated share. With the completion of the share consolidation, the Company's share capital consists of 1,029,176,786 consolidated shares of par value of USD0.10 each. The basic and diluted earnings per share attributable to the equity shareholders of the Company amounted to USD9.38 cents for the year ended 31 December 2019, compared to the basic and diluted earnings per share of USD8.04 cents, on an adjusted basis, for the year ended 31 December 2018.

The board (the "**Board**") of directors (the "**Directors**") of the Company does not recommend the payment of dividend for the year ended 31 December 2019 (dividend for the year ended 31 December 2018: nil).

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

The Board is announcing the audited annual results of the Group for the year ended 31 December 2019 together with the comparative figures for the corresponding period in 2018 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019

	Note	**2019**	2018 *(Note)*
		USD'000	*USD'000*
Revenue	*4*	**626,596**	590,710
Cost of revenue	*5*	**(374,534)**	(360,310)
Gross profit		**252,062**	230,400
Other costs		**(1,070)**	(986)
Other net (loss)/income	*6*	**(14,968)**	2,146
Selling and distribution costs	*7(c)*	**(54,271)**	(61,410)
General and administrative expenses		**(21,849)**	(16,458)
Profit from operations		**159,904**	153,692
Finance income	*7(a)*	**1,120**	134
Finance costs	*7(a)*	**(46,783)**	(55,529)
Net finance costs	*7(a)*	**(45,663)**	(55,395)
Gain from debt refinancing	*8*	**21,101**	–
Share of profits of associates		**140**	171
Share of losses of joint venture		**(16)**	(8)
Profit before taxation	*7*	**135,466**	98,460
Income tax	*9*	**(38,746)**	(16,050)
Profit for the year		**96,720**	82,410
Attributable to:			
Equity shareholders of the Company		**96,527**	82,773
Non-controlling interests		**193**	(363)
Profit for the year		**96,720**	82,410
Basic earnings per share	*10*	**9.38 cents**	8.04 cents
Diluted earnings per share	*10*	**9.38 cents**	8.04 cents

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Note	**2019**	2018
			(Note)
		USD'000	*USD'000*
Profit for the year		**96,720**	82,410
Other comprehensive income for the year (after reclassification adjustments)			
Items that will not be reclassified to profit or loss:			
Equity investments at FVOCI – net movement in fair value reserves (non-recycling)		**(878)**	–
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on re-translation		**(5,503)**	(36,676)
Other comprehensive income for the year		**(6,381)**	(36,676)
Total comprehensive income for the year		**90,339**	45,734
Attributable to:			
Equity shareholders of the Company		**90,146**	46,097
Non-controlling interests		**193**	(363)
Total comprehensive income for the year		**90,339**	45,734

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Note	**2019**	2018
			(Note)
		USD'000	*USD'000*
Non-current assets			
Property, plant and equipment, net	*12*	**878,297**	853,278
Construction in progress	*13*	**33,796**	23,365
Lease prepayments		**52**	53
Intangible assets	*14*	**501,390**	504,392
Interest in associates		**454**	328
Interest in joint venture		**30**	47
Other non-current assets		**52,739**	70,749
Deferred tax assets		**14,193**	31,248
Total non-current assets		**1,480,951**	1,483,460
Current assets			
Inventories		**109,525**	99,980
Trade and other receivables	*15*	**101,077**	101,493
Cash and cash equivalents		**40,619**	33,035
Total current assets		**251,221**	234,508
Current liabilities			
Short-term borrowings and current portion of long-term borrowings	*16(b)*	**–**	25,065
Trade and other payables	*18*	**166,433**	195,472
Contract liabilities		**41,247**	43,018
Lease liabilities		**90**	–
Current taxation		**25,311**	26,796
Total current liabilities		**233,081**	290,351
Net current assets/(liabilities)		**18,140**	(55,843)
Total assets less current liabilities		**1,499,091**	1,427,617

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)
As at 31 December 2019

	Note	**2019**	2018
			(Note)
		USD'000	*USD'000*
Non-current liabilities			
Long-term borrowings, less current portion	*16(a)*	**–**	–
Senior notes	*17*	**448,003**	451,711
Provisions		**15,407**	13,059
Deferred tax liabilities		**168,989**	144,290
Other non-current liabilities		**713**	1,296
Total non-current liabilities		**633,112**	610,356
NET ASSETS		**865,979**	817,261
CAPITAL AND RESERVES			
Share capital		**102,918**	102,918
Perpetual notes	*19(c)*	**66,569**	75,897
Reserves		**696,771**	638,918
Total equity attributable to equity shareholders of the Company		**866,258**	817,733
Non-controlling interests		**(279)**	(472)
TOTAL EQUITY		**865,979**	817,261

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated.

NOTES

1 CORPORATE INFORMATION

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

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

2 STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("**IFRSs**"), promulgated by the International Accounting Standards Board ("**IASB**"). IFRSs include all applicable individual International Financial Reporting Standards, International Accounting Standards ("**IASs**") and related interpretations. These financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). A summary of the significant accounting policies adopted by the Group is set out below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements is provided below.

Basis of Preparation of the Financial Statements

The consolidated financial statements for the year ended 31 December 2019 comprise the Group and the Group's interest in associates and a joint venture.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

– Investments in debt and equity securities;

– Buildings and plants as well as machinery and equipment;

– Derivative financial instruments.

Non-current assets and disposals groups held for sale are stated at the lower of carrying amount and fair value less costs.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The Group had net current assets of approximately USD18,140,000 as at 31 December 2019 (as at 31 December 2018: net current liabilities of USD55,843,000).

In 2020 and thereafter, the liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflow from operations to meet its debt obligations as they fall due. The Directors have carried out a detailed review of the cash flow forecast of the Group for the twelve months ending 31 December 2020. Based on such forecast, the Directors have determined that adequate liquidity exists to finance the working capital and capital expenditure requirements of the Group during that period. In preparing the cash flow forecast, the Directors have considered historical cash requirements of the Group as well as other key factors. The Directors are of the opinion that the assumptions and sensitivities which are included in the cash flow forecast are reasonable. However, as with all assumptions in regard to future events, these are subject to inherent limitations and uncertainties and some or all of these assumptions may not be realised.

Based on working capital forecast of the Group for the next twelve months ending 31 December 2020 prepared by the management, the Directors expect to maintain adequate financial resources to cover its operating costs and meet its financing commitments, as and when they fall due for the twelve months period subsequent to 31 December 2019. Accordingly, in consideration of the sufficient cash flows generated from the Group's operating activities and return to the net current assets position as at the reporting date, the Directors consider that there is no material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and it is appropriate to prepare the consolidated financial statements on a going concern basis.

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**").

The functional currency of the Group's overseas holding entities and main operating subsidiaries located in Mongolia is USD and the functional currency of remaining subsidiaries located in Mongolia is Mongolian Togrog ("**MNT**").

The Company and the Group's presentation currency is USD.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 3.

Changes in Accounting Policies

The IASB has issued a new IFRS, IFRS 16, *Leases*, and a number of amendments to IFRSs that are first effective for the current accounting period of the Group.

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

IFRS 16, *Leases*

IFRS 16 replaces IAS 17, *Leases*, and the related interpretations, IFRIC 4, *Determining whether an arrangement contains a lease*, SIC 15, *Operating leases – incentives*, and SIC 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("**short-term leases**") and leases of low value assets. The lessor accounting requirements are brought forward from IAS 17 substantially unchanged.

IFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied IFRS 16 from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under IAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

a. New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. IFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in IFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under IAS 17 continue to be accounted for as leases under IFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

b. Lessee accounting and transitional impact

IFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by IAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under IAS 17, other than those short-term leases and leases of low-value assets which are exempt. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment.

At the date of transition to IFRS 16, the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019.

To ease the transition to IFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of IFRS 16:

(i) the Group elected not to apply the requirements of IFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of IFRS 16, i.e. where the lease term ends on or before 31 December 2019; and

(ii) when measuring the lease liabilities at the date of initial application of IFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment).

The following table reconciles the operating lease commitments as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	1 January 2019 *USD'000*
Operating lease commitments at 31 December 2018	707
Less: short-term leases and other leases with remaining lease term ending on or before 31 December 2019 which are exempted from capitalisation	373
	334
Less: total future interest expenses	30
Present value of remaining lease payments, discounted using the incremental borrowing rate and total lease liabilities recognised at 1 January 2019	304

The following table summarises the impacts of the adoption of IFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 December 2018 *USD'000*	**Capitalisation of operating lease contracts** *USD'000*	**Carrying amount at 1 January 2019** *USD'000*
Line items in the consolidated statement of financial position impacted by the adoption of IFRS 16:			
Property, plant and equipment, net	853,278	304	853,582
Total non-current assets	1,483,460	304	1,483,764
Trade and other payables	195,472	–	195,472
Lease liabilities (current)	–	304	304
Current liabilities	290,351	304	290,655
Net current liabilities	(55,843)	(304)	(56,147)
Total assets less current liabilities	1,427,617	–	1,427,617
Lease liabilities (non-current)	–	–	–
Total non-current liabilities	610,356	–	610,356
Net assets	817,261	–	817,261

c. Impact on the financial result, segment results and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported profit from operations in the Group's consolidated statement of profit or loss, as compared to the results if IAS 17 had been applied during the year.

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under IAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under IAS 17. Although total cash flows are unaffected, the adoption of IFRS 16 therefore results in a significant change in presentation of cash flows within the cash flow statement.

3 ACCOUNTING JUDGEMENTS AND ESTIMATES

(a) Critical accounting judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, management has made the following accounting judgements:

(i) Fair value of buildings and plants, machinery and equipment classified as property, plant and construction in progress

The Group has changed its accounting policy for its buildings and plants, machinery and equipment, and such class of items under construction status from cost model to valuation model with effect from 31 December 2016. Buildings and plants, machinery and equipment classified as property, plant and construction in progress were revalued by an external appraiser as at 31 December 2016 (see Notes 12 and 13). Such valuations were based on certain assumptions which are subject to uncertainty and might materially differ from the actual results. Judgement is required in relation to the selection of assumptions in arriving at the fair values and the determination of the frequency of performing a revaluation with sufficient regularity.

(ii) Reserves

The Group estimates and reports Mineral Resources and Ore Reserves, commonly referred to as Coal Resources and Coal Reserves in the coal mining industry, meeting requirements of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the "**JORC Code**"), and subsequently the Australian Guidelines for the Estimation and Classification of Coal Resources (2014) to which are referred.

The JORC Code is a professional code of practice that sets minimum standards for Public Reporting of minerals Exploration Results, Mineral Resources and Ore Reserves. The JORC Code provides a mandatory system for the classification of minerals Exploration Results, Mineral Resources and Ore Reserves according to the levels of confidence in geological knowledge and technical and economic considerations in public reports.

Responsibility for demonstrating the required transparency and materiality in the estimation of Coal Resources and/or Coal Reserves required by the JORC Code lies with the "Competent Person". A Competent Person is a minerals industry professional who is a Member or Fellow of The Australasian Institute of Mining and Metallurgy, or of the Australian Institute of Geoscientists, or of a Recognised Professional Organisation, as included in a list available on the JORC website. These organisations have enforceable codes of ethics, including disciplinary processes with powers to suspend or expel a member. A Competent Person must have a minimum of five years relevant experience in the style of mineralisation or type of deposit under consideration and in the activity which that person is undertaking.

A "Coal Reserve" is the economically mineable part of a Measured and/or Indicated Coal Resource. It includes diluting materials and allowances for losses, which may occur when the material is mined or extracted and is defined by studies at Pre-Feasibility or Feasibility level as appropriate that include application of Modifying Factors. Such studies demonstrate that, at the time of reporting, extraction could reasonably be justified.

A "Probable Coal Reserve" is the economically mineable part of an Indicated, and in some circumstances, a Measured Coal Resource. The confidence in the Modifying Factors applying to a Probable Coal Reserve is lower than that applying to a Proved Coal Reserve. A "Proved Coal Reserve" is the economically mineable part of a Measured Mineral Resource. A Proved Coal Reserve implies a high degree of confidence in the Modifying Factors.

"Modifying Factors" are considerations used to convert Coal Resources to Coal Reserves. These include, but are not restricted to, mining, processing, metallurgical, infrastructure, economic, marketing, legal, environmental, social and governmental factors. Modifying Factors may change from one estimation to the next, where the materiality of such changes is demonstrable. Such changes may be as result of variation to any of the mining, processing, metallurgical, infrastructure, economic, marketing, legal, environmental, social, governmental or other factors.

Because the Modifying Factors used to estimate Coal Reserves may change from one estimate to the next, estimates of Coal Reserves may change from one period to another. Changes in reported Coal Reserves thus may affect the Group's financial results and financial position in a number of ways, including the following:

– Asset recoverable amounts may be affected due to changes in estimated future cash flows.

– Depreciation, depletion and amortisation charged in the income statement may change where such charges are determined on the units of production basis, or where the useful economic lives of assets change.

– Overburden removal costs recorded on the statement of financial position or charged to the income statement may change due to changes in stripping ratios or the units of production basis of depreciation.

– Reclamation and mine closure provisions may change where changes in estimated reserves affect expectations about the timing or cost of these activities.

– The carrying amount of deferred tax assets may change due to changes in estimates of the likely recovery of the tax benefits.

(iii) Useful lives of property, plants and equipment

Management determines the estimated useful lives of and related depreciation charges for its property, plant and equipment. This estimate is based on the actual useful lives of assets of similar nature and functions. It could change significantly as a result of significant technical innovations and competitor actions in response to industry cycles. Management will increase the depreciation charges where useful lives are less than previously estimated lives, or will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(iv) Impairment of assets

The Group reviews the carrying amounts of the assets at each balance sheet date to determine whether there is objective evidence of impairment. When indication of impairment is identified, management prepares discounted future cash flow to assess the differences between the carrying amount and value in use and provided for impairment loss. Any change in the assumptions adopted in the cash flow forecasts would increase or decrease in the provision of the impairment loss and affect the Group's net asset value.

In relation to trade and other receivables (including the value-added tax ("**VAT**") receivables), a provision for impairment is made and an impairment loss is recognised in profit or loss when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. Management uses judgment in determining the probability of insolvency or significant financial difficulties of the debtor.

An increase or decrease in the above impairment loss would affect the net profit in future years.

(v) Obligation for reclamation

The estimation of the liabilities for final reclamation and mine closure involves the estimates of the amount and timing for the future cash spending as well as the discount rate used for reflecting current market assessments of the time value of money and the risks specific to the liability. The Group considers the factors including future production volume and development plan, the geological structure of the mining regions and reserve volume to determine the scope, amount and timing of reclamation and mine closure works to be performed. Determination of the effect of these factors involves judgements from the Group and the estimated liabilities may turn out to be different from the actual expenditure to be incurred. The discount rate used by the Group may also be altered to reflect the changes in the market assessments of the time value of money and the risks specific to the liability, such as change of the borrowing rate and inflation rate in the market. As changes in estimates occur (such as mine plan revisions, changes in estimated costs, or changes in timing of the performance of reclamation activities), the revisions to the obligation will be recognised at the appropriate discount rate.

(vi) Recognition of deferred tax assets

Deferred tax assets in respect of unused tax losses and tax credit carried forward and deductible temporary differences are recognised and measured based on the expected manner of realisation or settlement of the carrying amount of the assets, using tax rates enacted or substantively enacted at the balance sheet date. In determining the carrying amounts of deferred assets, expected taxable profits are estimated which involves a number of assumptions relating to the operating environment of the Group and require a significant level of judgement exercised by the Directors. Any change in such assumptions and judgement would affect the carrying amounts of deferred tax assets to be recognised and hence the net profit in the future years.

(vii) Derivative financial instruments

In determining the fair value of the derivative financial instruments, considerable judgement is required to interpret market data used in the valuation techniques. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

(viii) Capitalised stripping costs

The process of removing overburden and other mine waste materials to access mineral deposits is referred to as stripping. Stripping costs (waste removal costs) are incurred during the development and production phases at open-pit mining and they are accounted for separately for each component of an ore body unless the stripping activity provides improved access to the whole of the ore body. A component is a specific section within an ore body that is made more accessible by the stripping activity. The identification of components is dependent on the mine plan. Judgement is required to identify and define these components and also to determine the expected volumes of waste to be stripped and ore to be mined in each of these components. Judgement is also required to identify a suitable production measure that can be applied in the calculation and allocation of production stripping costs between inventory and production stripping activity. These are used to calculate and allocate the production stripping costs to inventory and/or the stripping activity assets.

Development stripping costs are capitalised as a stripping activity asset, in construction in progress and forming part of the cost of constructing the mine, when:

– It is probable that future economic benefits associated with the asset will flow to the entity; and

– The costs can be measured reliably.

Capitalisation of development stripping costs ceases and these costs are transferred to mine properties in property, plant and equipment when the ore body or component of ore body is ready for its intended use.

Production stripping can give rise to two benefits being the extraction of ore in the current period and improved access to the ore body or component of ore body in future periods. To the extent that the benefit is the extraction of ore, the stripping costs are recognised as an inventory cost. To the extent the benefit is improved access to the ore body or component of ore body in future periods, the stripping costs are capitalised as mine properties in property, plant and equipment, if the following criteria are met:

– It is probable that the future economic benefit (improved access to ore) will flow to the Group;

– The ore body or component of the ore body for which access has been improved can be identified; and

– The costs relating to the stripping activity can be measured reliably.

Production stripping costs are allocated between the inventory produced and the mine properties capitalised using a life-of-component waste to ore strip ratio. When the current strip ratio is greater than the life-of-component ratio, a portion of the stripping costs is capitalised to the existing mine properties.

The development and production stripping assets are depreciated using the units of production method based on the proven and probable mineral reserves of the relevant ore body or component of ore body.

(ix) Taxation

The Group is subject to various taxes and levies in the jurisdictions where it has operations. The Group makes payments and determines the provision for tax and levy liabilities primarily based on the computations as prepared by the Group. Nevertheless, judgement is required in determining the provision for taxes and levies as there are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business, there are possible cases of disagreements with the relevant authorities on treatment of certain items included in the computations and certain non-routine transactions. The Group uses its best judgement to determine the probability although it is typically very difficult to determine the timing and ultimate outcome of each case. If the Group considers it probable that these judgement will result in different positions, the most likely amounts of the outcome will be estimated and adjustments to the liabilities will be made in the period in which such determination is made. Due to the inherent uncertainties related to the eventual outcome of each case, it is probable that certain matters may be resolved for amounts materially different from any estimated provisions or previous disclosures.

(b) Sources of estimation uncertainty

Other than requiring critical accounting judgements, assumptions concerning the future and other major sources of estimation uncertainty at the end of the reporting period are required in relation to certain Group's accounting policies. Respective information and assumptions and their risk factors are disclosed accordingly in Notes 3(a)(i), (iii), (iv), (v), (vii) and (viii).

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 in revenue during the year is as follows:

	2019	2018
	USD'000	*USD'000*
Washed hard-coking coal ("**HCC**")	**564,064**	546,527
Washed semi-soft coking coal ("**SSCC**")	**59,150**	40,596
Washed thermal coal	**3,111**	3,373
Raw thermal coal	**271**	214
	626,596	590,710

During the year ended 31 December 2019, the Group had three customers that individually exceeded 10% of the Group's revenue from sales of goods and referring of services, being USD305,636,000, USD82,370,000 and USD67,015,000. During the year ended 31 December 2018, the Group had two customers that individually exceeded 10% of the Group's revenue from sales of goods and referring of services, being USD242,220,000 and USD112,530,000.

Revenue during the year ended 31 December 2019 include approximately USD449,317,000 (2018: USD502,127,000) which arose from sales of coal products to customers through agent sales arrangements for diversifying and expanding the Group's sales channels.

5 COST OF REVENUE

	2019	2018
	USD'000	*USD'000*
Mining costs	**136,026**	126,420
Processing costs	**48,548**	42,876
Transportation costs	**103,470**	117,784
Others *(Note)*	**86,490**	73,230
Cost of revenue	**374,534**	360,310

Note: Others include royalty tax on the coal sold.

6 OTHER NET (LOSS)/INCOME

	2019	2018
	USD'000	*USD'000*
Write-off of prepayments in relation to demobilised mining fleets *(Note)*	**(17,700)**	–
Others	**2,732**	2,146
Other net (loss)/income	**(14,968)**	2,146

Note: As a measure to decrease immediate costs being borne by the Group, certain fleets were demobilised under the mining contract. In accordance with contract terms, the related prepayments cannot be claimed back from the mining contractor. Therefore USD17,700,000 prepayments were written off during the year of 2019.

7 PROFIT BEFORE TAXATION

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

(a) Net finance costs:

	2019	2018
		(Note)
	USD'000	*USD'000*
Interest income	**(269)**	(134)
Foreign exchange gain, net	**(851)**	–
Finance income	**(1,120)**	(134)
Interest on bank and other borrowings	**761**	3,719
Interest on liability component of senior notes *(Note 17)*	**44,467**	41,162
Interest on lease liabilities	**15**	–
Unwinding interest on		
– Accrued reclamation obligations	**714**	581
Net interest expense	**45,957**	45,462
Net change in fair value of derivative component of senior notes	**826**	9,295
Foreign exchange loss, net	**–**	772
Finance costs	**46,783**	55,529
Net finance costs	**45,663**	55,395

Note:

The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated.

No borrowing costs have been capitalised for the years ended 31 December 2019 and 2018.

(b) Staff costs:

	2019	2018
	USD'000	*USD'000*
Salaries, wages, bonuses and benefits	**26,648**	23,088
Retirement scheme contributions	**3,832**	3,173
Equity-settled share-based payment expenses	**278**	677
	30,758	26,938

Pursuant to the relevant labor rules and regulations in Mongolia, the Group participates in defined contribution retirement benefit schemes (the "**Schemes**") organised by the Government of Mongolia ("**GoM**") whereby the Group is required to make contributions to the Schemes at a rate of 8.5% of the eligible employees' salaries. Contributions to the Schemes vest immediately.

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

(c) Other items:

	2019	2018
	USD'000	*USD'000*
Selling and distribution costs *(Note (i))*	**54,271**	61,410
Depreciation and amortisation	**64,389**	63,873
Total minimum lease payments for leases previously classified as operating leases under IAS 17:		
– hire of plant and machinery	**1,851**	1,815
– hire of other assets (including property rentals)	**321**	392
	2,172	2,207
Net gain on disposals of property, plant and equipment	**(90)**	(99)
Auditors' remuneration		
– audit services	**590**	566
– other assurance services	**190**	–
– tax and other services	**64**	9
	844	575
Cost of inventories *(Note (iii))*	**374,534**	360,310

Notes:

(i) Selling and distribution costs

Selling and distribution costs represent fees and charges incurred for importing coal into the People's Republic of China ("**PRC**"), logistics and transportation costs, governmental fees and charges and fixed agent fees associated with sales activities in inland PRC.

(ii) Impairment of non-financial assets

Given the fact that the carrying amount of the Group's net assets exceeded the Group's market capitalisation as at 31 December 2019, according to IAS 36, Impairment of assets, the management has performed impairment assessment on the carrying amount of the Group's property, plant and equipment, construction in progress, intangible assets and long-term prepayments related to the Ukhaa Khudag ("**UHG**") mine and Baruun Naran ("**BN**") mine operations (collectively referred to as "**UHG and BN Assets**"). For the purpose of this, the UHG and BN Assets are treated as a cash generating unit ("**CGU**").

The recoverable amount of the CGU was based on value in use, determined by discounting the future cash flows to be generated from the continuing use of the UHG and BN Assets. The key assumptions used in the estimation of value in use were as follows:

– Recoverable reserves and resources

Economically recoverable reserves and resources represent management's expectations at the time of completing the impairment testing, based on reserves and resource statements and exploration and evaluation work undertaken by appropriately qualified persons.

– Growth rate

Instead of using a steady growth rate over the estimation period longer than five years, the cash flow projection made at the year end of 2019 and the year end of 2018 followed the same mechanism based on as coal product price consensus and life-of-mine ("**LOM**") production plan.

– Coal prices

The coal price assumptions are management's best estimate of the future price of coal in China. Coal price assumptions for the next five years are built on past experience of the industry and consistent with external sources. These prices are adjusted to arrive at appropriately consistent price assumptions for the different qualities and type of coal.

Preparation basis used for the coal price assumptions for the next five years estimated at the year end of 2019 is consistent with that at the year end of 2018, which was also updated with reference to the latest market forecast. The coal price estimation over a period longer than five years contains no growth rate, except for annual inflation rate. The treatment was consistent among estimations made at the year end of 2019 and the year end of 2018.

– Sales quantity/production profile

Sales quantity is in line with production profile. Estimated production volumes are based on detailed LOM plans and take into account development plans for the mines agreed by management as part of the long-term planning process. Production volumes are dependent on a number of variables, such as the recoverable quantities, the production profile, the cost of the development of the infrastructure necessary to extract the reserves, the production costs, and the contractual duration of mining rights and the selling price of the coal extracted. The production profiles used were consistent with the reserves and resource volumes approved as part of the Group's process for the estimation of proved and probable reserves.

– Operating costs

Operating cost assumptions are based on management's best estimation of the costs to be incurred at the date of impairment testing. Costs are determined after considering current operating costs, future cost expectations, as well as the nature and location of the operation. The estimation also takes future mining contractor arrangements into consideration; and the Directors are of the opinion that such mining contractor arrangements are in line with the Group's business plan.

– Capital expenditure

Future capital expenditure is based on management's best estimate of required future capital requirements. It has been determined by taking into account all committed and anticipated capital expenditure adjusted for future cost estimates.

– Discount rate

This discount rate is derived from the Group's weighted average cost of capital ("**WACC**"), with appropriate adjustments made to reflect the risks specific to the CGU. The WACC takes into account both debt and equity, weighted based on the Group and comparable peer companies' average capital structure. The cost of equity is derived from the expected return on investment by the Group's investors based on publicly available market data of comparable peer companies. The cost of debt is based on the borrowing cost of interest-bearing borrowings of the Group that reflects the credit rating of the Group.

Post-tax discount rate of 18% and pre-tax discount rate of 22% were applied to the future cash flows projection at the year end of 2019 (2018: post-tax discount rate of 18% and pre-tax discount rate of 21%). The Directors believe that the post-tax discount rate was matching with the latest cash flow projection modelling.

Based on above-mentioned impairment assessment, the carrying amount of the CGU has not exceeded its recoverable amount as at 31 December 2019, and has not resulted in the identification of an impairment loss for the year ended 31 December 2019. The Directors are of the opinion that the impairment provision is adequate as at 31 December 2019 and no additional or reversal of impairment provision is needed in respect of the Group's non-financial assets in this regard.

The Directors believe that the estimates and assumptions incorporated in the impairment assessment are reasonable; however, the estimates and assumptions are subject to significant uncertainties and judgements. It is estimated that adverse changes in the key assumptions would lead to the recognition of an impairment provision against the CGU as follows:

	USD'000
1% decrease in long-term coal price	9,000
1% decrease in the estimated production volume	27,000
1% increase in the estimated operating costs	5,000
One percentage point increase in post-tax discount rate	87,000
20% increase in the estimated capital expenditure	44,000

This assumes that the adverse change in the key assumption occurs in isolation of changes to other key assumptions and that no mitigating action is taken by management.

(iii) Cost of inventories

Cost of inventories includes USD90,404,000 (2018: USD78,577,000) relating to personnel expenses, depreciation and amortisation and operating lease charges which are also included in the respective amounts disclosed separately above for each of these types of expenses. Also cost of inventories includes transportation and stockpile losses amounted to USD8,013,000 (2018 transportation and stockpile losses: USD4,929,000).

8 GAIN FROM DEBT REFINANCING

The Group redeemed (i) the guaranteed senior notes due September 2022 (the "**Senior Notes due 2022**") with a principal amount of USD397,847,706 on 15 April 2019 and (ii) the first ranking senior secured facility (the "**Senior Loan**") with an outstanding principal amount of USD16,200,000 on 12 April 2019. In addition, the Group issued guaranteed senior notes due April 2024 with a principal amount of USD440,000,000 (the "**Senior Notes due 2024**") on 15 April 2019. The proceeds raised from the issuance of the Senior Notes due 2024 were used in redeeming the Senior Notes due 2022 and repurchasing the perpetual notes ("**Perpetual Notes**"). The excess of derecognised carrying value of the Senior Notes due 2022 and Senior Loan over the consideration to settle the financial liabilities, amounting to approximately USD21,101,000 has been recognised as a gain from the debt refinancing ("**Debt Refinancing**") and credited to profit or loss during the year ended 31 December 2019.

9 INCOME TAX

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

	2019	2018
	USD'000	*USD'000*
Current tax		
Provision for the year	**26,802**	37,315
Deferred tax		
Origination and reversal of temporary difference	**11,944**	(21,265)
	38,746	16,050

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

	2019	2018
	USD'000	*USD'000*
Profit before income tax	**135,466**	98,460
Notional tax on profit before taxation	**24,463**	24,240
Tax effect of non-deductible items *(Note (iii))*	**14,096**	(4,371)
Tax effect of non-taxable items *(Note (iii))*	**182**	(4,193)
Tax losses not recognised	**5**	374
Actual tax expenses	**38,746**	16,050

Notes:

(i) Pursuant to the prevailing income tax rules and regulations of Mongolia, the Group is liable to Mongolian Corporate Income Tax at a rate of 10% of first MNT3 billion taxable income and 25% of the remaining taxable income for the years ended 31 December 2019 and 2018. According to the Corporate Income Tax Law of China, the Company's subsidiary in China 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 years ended 31 December 2019 and 2018.

(iii) Non-deductible and non-taxable items mainly includes reversal of deferred taxes upon redemption of the Senior Notes due 2022 and the Senior Loan, which have been previously recognised on fair value accounting of the related derivative components 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 years ended 31 December 2019 and 2018.

10 EARNINGS PER SHARE

(a) Basic earnings per share

Upon adjusting for the share consolidation (see Note 19(b)), 1,029,176,786 consolidated shares were in issue. The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of USD96,527,000 (2018: USD82,773,000) and the 1,029,176,786 ordinary shares (2018: 1,029,176,786 adjusted ordinary shares) in issue during the year.

(b) Diluted earnings per share

For the years ended 31 December 2019 and 2018, basic and diluted earnings/loss per share are the same.

The equity-settled share-based payment transactions are anti-dilutive and therefore not included in calculating diluted earnings per share for the years ended 31 December 2019 and 2018.

11 SEGMENT REPORTING

The Group has one business segment, the mining, processing, transportation and sale of coal products. The majority of its customers are located in China. Based on information reported by 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 sales of coal products. Accordingly, no additional business and geographical segment information are presented.

12 PROPERTY, PLANT AND EQUIPMENT, NET

Mining properties as at 31 December 2019 include stripping activity assets carrying book value of USD346,111,000 (2018: USD279,553,000) and application fee for the mining rights of USD817,000 (2018: USD774,000) in relation to the Group's mine deposits.

As at 31 December 2019, none of the Group's property plant and equipment were used as security for the borrowings. As at 31 December 2018, 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 USD172,530,000, USD49,656,000, and USD3,626,000, respectively.

Fair value measurement of property, plant and machinery

(i) Fair value hierarchy

The following table presents the fair value of the Group's property, plant and machinery 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

	Fair value as at 31 December 2019	**Fair value measurements as at 31 December 2019 categorised into**		
		Level 1	**Level 2**	**Level 3**
	USD'000	***USD'000***	***USD'000***	***USD'000***
Recurring fair value measurement				
Buildings and plants	**343,032**	**–**	**–**	**343,032**
Machinery and equipment	**150,201**	**–**	**–**	**150,201**
Buildings and plants, machinery and equipment under construction	**33,796**	**–**	**–**	**33,796**
Total	**527,029**	**–**	**–**	**527,029**

	Fair value as at 31 December 2018	Fair value measurements as at 31 December 2018 categorised into		
		Level 1	Level 2	Level 3
	USD'000	*USD'000*	*USD'000*	*USD'000*
Recurring fair value measurement				
Buildings and plants	362,524	–	–	362,524
Machinery and equipment	169,885	–	–	169,885
Buildings and plants, machinery and equipment under construction	23,326	–	–	23,326
Total	555,735	–	–	555,735

During the year ended 31 December 2019, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. 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.

As at 31 December 2016, buildings and plants as well as machinery and equipment were revalued and such valuation was carried out by a firm of external appraisers, Duff and Phelps Corporation, who has among their staff fellows of the American Society of Appraisers, Royal Institute of Charted Surveyors, Chartered Certified Accountant, Chartered Financial Analyst and Financial Risk Manager with recent experience in the mining property valuation worldwide including valuation of coal mines. The Group's property manager and the chief financial officer have discussion with the appraisers on the valuation assumptions and valuation results when the valuation is performed. At each following interim and annual reporting date, the management reviewed the key indicators adopted in the revaluation assessment as at 31 December 2016 and concluded there was no significant change.

The subject properties are purpose-built industrial facilities including buildings and plants, machinery and equipment and construction in progress located in South Gobi of Mongolia. They are operated according to their highest and best use for coal mining and processing. There is no other alternative use of the subject properties. Upon consideration of all relevant facts, it was concluded that the properties subject to valuations are specialised properties.

Depreciated replacement cost is defined by International Valuation Standards ("**IVS**") as "the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimization". Depreciated replacement cost application for major assets classes briefly described below:

– Buildings and plants, and such items under construction status:

  - Reproduction cost new ("**RCN**") estimation for the buildings and structures were calculated using indexing method;

  - Indices were applied to the historical cost. The indices were obtained from recognised sources such as: Chinese indices (Rider Levett Buckhall), FM Global, BMT Construction costs, Bureau of Labor Statistics of the Department of Labor, AUS Consultants, etc.;

  - Physical depreciation was applied using straight line method based on the economic useful life of production, auxiliary, administrative facilities, land improvements, transfer devices;

  - There was no any functional obsolescence revealed.

– Machinery and equipment:

  - Machinery RCN was estimated based on the actual machinery quotations received from purchase department of the Company. These estimates were adjusted with installation expenses, engineering expenses and interest during construction. Estimated RCN was compared to indexed historical cost and considered to be relevant. Additionally, unitary reproduction cost (USD/kg of equipment weight) of major and most expensive equipment appraised such as crushers, screens, spirals and flotation cells was compared with unitary cost range of similar equipment recently purchased by other mining companies and considered to be in line with these data. Overall Processing plant modules unitary cost parameter (USD/ton of processing capacity) is in the middle of the range of recently constructed coal processing plants;

  - Engineering and general administrative expenses estimated as average of several recently constructed coal mines and equal to 7% of RCN;

  - Interest during Construction estimated equal to 7.8% of RCN based on the actual interest paid during Processing Plant module 1 construction.

(ii) Information about Level 3 fair value measurements

IVS requires that for a private sector entity with specialised assets, a valuation assessed by depreciated replacement cost must be subject to a test of profitability in relation to the whole of the assets held by the entity or the cash-generating unit. For the purpose of profitability test, the Company was considered as a single cash-generating unit.

In testing profitability, the impact that current economic conditions may potentially have on the Company's operations, financial performance, expectations of financial performance of or financial conditions is considered. Such impact was assessed with the use of financial models, which make use projections of operating activities and financial performance of the Company provided by the Management. No economic obsolescence for the Group was indicated by the profitability test.

(iii) Depreciated cost of properties held for own use carried at fair value

Had the revalued properties held for own use been carried at cost less accumulated depreciation, the carrying amounts would have been:

	2019	2018
	USD'000	*USD'000*
Buildings and plants	**130,236**	140,505
Machinery and equipment	**5,810**	37,949
Buildings and plants, machinery and equipment under construction *(Note 13)*	**29,303**	6,075
	165,349	184,529

13 CONSTRUCTION IN PROGRESS

	2019	2018
	USD'000	*USD'000*
At 1 January	**23,365**	16,010
Additions	**10,557**	9,181
Transfer to property, plant and equipment *(Note 12)*	**–**	–
Disposals	**–**	–
Exchange adjustments	**(126)**	(1,826)
At 31 December	**33,796**	23,365

The construction in progress is mainly related to machinery and equipment.

14 INTANGIBLE ASSETS

	Acquired mining right *USD'000*	Software *USD'000*	Total *USD'000*
Cost:			
At 1 January 2018	701,557	3,679	705,236
Exchange adjustments	–	(3)	(3)
At 31 December 2018	701,557	3,676	705,233
At 1 January 2019	701,557	3,676	705,233
At 31 December 2019	701,557	3,676	705,233
Accumulated amortisation:			
At 1 January 2018	195,534	1,107	196,641
Amortisation charge for the year	3,836	367	4,203
Exchange adjustments	–	(3)	(3)
At 31 December 2018	199,370	1,471	200,841
At 1 January 2019	199,370	1,471	200,841
Amortisation charge for the year	2,634	368	3,002
At 31 December 2019	202,004	1,839	203,843
Carrying amount:			
At 31 December 2019	499,553	1,837	501,390
At 31 December 2018	502,187	2,205	504,392

Acquired mining right represents the mining right acquired during the acquisition of BN mine.

15 TRADE AND OTHER RECEIVABLES

	2019 ***USD'000***	2018 *USD'000*
Trade receivables *(Note (a))*	**16,858**	5,893
Other receivables *(Note (c))*	**84,219**	95,600
	101,077	101,493
Less: allowance for credit losses *(Note (b))*	**–**	–
	101,077	101,493

Notes:

(a) Ageing analysis

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 loss allowance, is as follows:

	2019	2018
	USD'000	*USD'000*
Within 90 days	**16,482**	5,503
90 to 180 days	**376**	390
Over 180 days	**–**	–
	16,858	5,893

(b) Loss allowance for trade receivables

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

As at 31 December 2019, the Group evaluated the loss allowance for ECL and no loss allowance of trade receivables (2018: nil) was made based on the assessment.

(c) Other receivables

	2019	2018
	USD'000	*USD'000*
Amounts due from related parties *(Note (i))*	**1**	2
Prepayments and deposits *(Note (ii))*	**50,821**	55,518
VAT and other tax receivables *(Note (iii))*	**32,813**	39,254
Others	**584**	826
	84,219	95,600

Notes:

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

(ii) At 31 December 2019 and 2018, prepayments and deposits mainly represent the prepayments made to the Group's mining contractor.

(iii) VAT and other tax receivables include amounts that have been accumulated to date in certain subsidiaries and were due from the Mongolian Taxation Authority. Based on current available information the Group anticipates full recoverability of such amounts.

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

16 BORROWINGS

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

	2019	2018
	USD'000	*USD'000*
Senior Loan	**–**	25,065
Less: Current portion of long-term borrowings	**–**	(25,065)
	–	–

On 4 May 2017, the Group issued the Senior Loan with a principal amount of USD31,200,000 and with a fair value of USD30,960,000. The Senior Loan bore interest, ranging from 5% to 8% per annum based on the benchmark coal price index, payable semi-annually. The Senior Loan was 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. On 12 April 2019, the Group fully prepaid the Senior Loan.

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

	2019	2018
	USD'000	*USD'000*
Current portion of long-term borrowings		
– Senior Loan	**–**	25,065

17 SENIOR NOTES

	2019	2018
	USD'000	*USD'000*
Senior Notes due 2022 *(Note (i))*	**17,050**	451,711
Senior Notes due 2024 *(Note (ii))*	**430,953**	–
	448,003	451,711

Notes:

(i) On 4 May 2017, the Group issued the Senior Notes due 2022 with a principal amount of USD412,465,892 and with a fair value of USD425,267,000. The Senior Notes due 2022 bear interest, ranging from 5% to 8% per annum based on the benchmark coal price index, payable semi-annually. On 15 April 2019, the Group redeemed 96.46% portion of the Senior Notes due 2022 with a principal amount of USD397,847,706 through the Debt Refinancing (see Note 8). The outstanding principal amount of the Senior Notes due 2022 is USD14,618,186 as at 31 December 2019.

The Senior Notes due 2022 have been accounted for as a hybrid financial instrument containing derivative components 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 31 December 2019 was USD1,175,000, USD1,933,000 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. As at 31 December 2019, the carrying amount of the liability component was USD13,942,000.

Fair value of the Senior Notes due 2022 was estimated by the Directors based on the discounted cash flow method.

Upon the completion of the Debt Refinancing (see Note 8), the pledges over debt reserve account, certain assets (see Note 12) and share capital of Mongolian Coal Corporation Limited, Mongolian Coal Corporation S.à.r.l., Enrestechnology LLC, Ukhaa Khudag Water Supply LLC and United Power LLC were released.

(ii) On 15 April 2019, the Group issued the Senior Notes due 2024 with a principal amount of USD440,000,000 which were listed on the Singapore Exchange Securities Trading Limited. The Senior Notes due 2024 bear interest at 9.25% per annum fixed rate, payable semi-annually, and due on 15 April 2024.

The Senior Notes due 2024 have been accounted for as a hybrid financial instrument containing a derivative component and a liability component. The derivative component of early redemption option was initially recognised at its fair value of nil. The fair value of the derivative component of early redemption option as at 31 December 2019 was nil. The liability component was initially recognised at amortised cost of USD429,795,446, after taking into account attributable transaction costs of USD10,204,554 and will be accounted on amortised cost subsequently.

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

18 TRADE AND OTHER PAYABLES

	2019	2018
	USD'000	*USD'000*
Trade payables *(Note (i))*	**127,444**	141,801
Amounts due to related parties *(Note (ii))*	**5,904**	6,085
Payables for purchase of equipment	**3,310**	2,509
Interest payable *(Note (iii))*	**8,848**	8,885
Other taxes payables	**14,679**	29,379
Others *(Note (iv))*	**6,248**	6,813
	166,433	195,472

Notes:

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

	2019	2018
	USD'000	*USD'000*
Within 90 days	**85,091**	94,236
90 to 180 days	**42,258**	40,861
180 to 365 days	**–**	431
Over 365 days	**95**	6,273
	127,444	141,801

(ii) Amounts due to related parties represent contractual service fee payable and payables for equipment and construction work, which are unsecured, interest-free and have no fixed terms of repayments.

(iii) As at 31 December 2019, interest payable related to Senior Notes due 2022 and Senior Notes due 2024 are amounting to USD256,000 and USD8,592,000 respectively.

As at 31 December 2018, interest payable related to Senior Loan and Senior Notes due 2022 are amounting to USD636,000 and USD8,249,000 respectively

(iv) Others represent accrued expenses, payables for staff related costs and other deposits.

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

19 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

The Board does not recommend the payment of a final dividend in respect of the year ended 31 December 2019 (dividend for the year ended 31 December 2018: nil).

(b) Share consolidation

On 26 August 2019, the Company implemented the share consolidation on the basis that every ten issued and unissued existing shares were consolidated into one consolidated share. The authorised share capital of the Company became USD150,000,000.00 divided into 1,500,000,000 consolidated shares of par value of USD0.10 each, of which 1,029,176,786 consolidated shares were in issue.

The aggregate amount of share capital of the companies now comprising the Group, after elimination of interests in subsidiaries, was included in other reserve during the years ended 31 December 2019 and 2018.

(c) Perpetual notes

The Company issued Perpetual Notes which were listed on the Singapore Exchange Securities Trading Limited on 4 May 2017, with a principal amount of USD195,000,000 and with a fair value of USD75,897,000. On 15 April 2019, the Company redeemed principal amount of USD23,972,000 with a fair value of USD9,328,000 through the Debt Refinancing (see Note 8). After the Debt Refinancing, the outstanding principal amount of Perpetual Notes was USD171,028,000 with a fair value of USD66,569,000.

The Perpetual Notes have no fixed maturity and are redeemable at the Company's option. 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.

20 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

The COVID-19 virus outbreak since early 2020 has brought certain uncertainties in the Group's operating environment.

The GoM announced closure of all ports of entry both from and into China in early February 2020, in order to prevent the spread of the COVID-19 virus in Mongolia. Mongolian coal exports to China have been temporarily suspended from 10 February 2020 and have been revived recently. However, during this period, the Group has been continuing its sales from the existing coal inventory in inland China.

The Group has been closely monitoring the impact of the developments on the Group's businesses and has put in place contingency measures such as temporary adjustment to levels of production. The Group will keep contingency measures under review as the situation evolves.

The Group regularly performs assessment on the liquidity risks, where appropriate, to assess the potential impact of business conditions on the Group's capital adequacy and liquidity. The results based on the Group's latest financial position showed that both capital and liquidity levels are sufficient to cope with the impact of the outbreak. Whenever necessary, prompt actions will be undertaken to mitigate potential impacts. While the circumstances of the outbreak are evolving rapidly, an estimate of its financial impact to the Group at the current stage may not be appropriate as it may be subject to material change.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

Chinese Steel, Coke and Coking Coal Sectors' Performance

The World Steel Association reported that crude steel production in China increased by 8.3% from previous year and reached 996.3 million tonnes ("**Mt**") in 2019. The record high production was supported by 8.3% annual growth in crude steel consumption domestically, which has reached 939.0 Mt in 2019, according to the estimates reported by Shanxi Fenwei Energy Information Services Co., Ltd ("**Fenwei**"). During this period, steel exports from China dropped by 7.5% to 64.3 Mt in 2019, primarily due to elevated domestic consumption, but also continued international trade tensions.

Data compiled by the National Bureau of Statistics showed that coke production in China had increased by 7.6% from the previous year to 471.3 Mt in 2019. At the same time, according to estimates made by Fenwei, coke consumption decreased by 5.7% annually to 454.5 Mt. During 2019, coke exports from China reported an annual decrease by 33.7% to 6.5 Mt.

China's coking coal consumption was 546.7 Mt in 2019, representing 5.2% increase from the previous year. Simultaneously, domestic coking coal production increased to 470.5 Mt, which represents 3.6% increase from the levels reported a year ago.

Chinese Coking Coal Imports and Mongolian Coal Exports Dynamics

Table 1. China's annual coking coal import volume (Mt) (Notes):

Countries	**2019**	2018	Change	**Market Share**
Mongolia	**33.8**	27.7	+22.0%	45.2%
Australia	**30.9**	28.7	+7.7%	41.4%
Canada	**3.0**	2.2	+36.4%	4.0%
Russia	**5.4**	4.4	+22.7%	7.2%
USA	**1.1**	2.0	-45.0%	1.5%
Others	**0.3**	0.4	-25.0%	0.4%
Total	**74.7**	65.3	+14.4%	100.0%

Source: Fenwei

Notes:

(i) Imports from Mongolia include raw unprocessed, dry and wet processed coking coal.

(ii) Due to rounding, discrepancy may exist between summary of volumes of individual countries with total volume, year-on-year percentage changes and market share.

The coking coal imports to China increased to 74.7 Mt in 2019, representing 14.4% year-on-year increase compared to 65.3 Mt imported in 2018, according to Fenwei. Mongolia with 45.2% market share surpassed Australia and took leading position as the largest coking coal supplier to China.

Mongolia exported 36.6 Mt of coal to China in 2019, representing 0.8% increase compared to 36.3 Mt reported for 2018, according to data from the National Statistics Office of Mongolia.

The majority of Mongolian coal imports to China flow through Ganqimaodu ("**GM**") and Ceke land-ports, both located in Inner Mongolia. According to data released by the Customs General Administration of Mongolia, coal imports from Mongolia via Gashuunsukhait ("**GS**"), Mongolian side of the border, to GM reached 20.6 Mt in 2019 and accounted for 56.3% of total coal exports from Mongolia to China.

OPERATING ENVIRONMENT

Legal Framework

Mining and Exploration related legislation

On 14 November 2019, the Parliament of Mongolia ("**Parliament**") amended the Constitution of Mongolia ("**Constitution**") to become effective from 25 May 2020. Clause 6.2 of the Constitution was revised to include wording related to accumulating benefits generated by extractive industry to the Sovereign Wealth Fund with aim to establish legal basis to distribute the majority of benefits generated from "strategically important mineral deposits" to all citizens equally and fairly. As such, laws related to the extractive industry are expected to be amended in the future pursuant to the aforementioned, although no such drafts were publicly presented yet by legislators.

On 30 October 2019, the Constitutional Court of Mongolia made its final ruling on the amendment of Article 47 of the Minerals Law of Mongolia, related to royalty payments, which was amended on 26 March 2019 ("**Initial Amendment**") to be contradictory with the Constitution, and the conflicting provision ceased to be effective immediately with its final ruling. On 22 November 2019, the Parliament re-amended Article 47 of the Minerals Law of Mongolia ("**Latest Amendment**"), eliminating the conflicting wordings from the Initial Amendment, related to the potentially double charging royalties from mining license holders and again from entities which do not hold mining licenses but purchase minerals from mining license holders and resell to third parties directly or upon processing. The Latest Amendment was approved to be effective retrospectively from 30 October 2019. The Latest Amendment will have no impact on royalty payments made by the Group, because no changes whatsoever were made to royalty rates and procedures applied.

Transportation infrastructure development related legislation

On 29 August 2019, the Minister of Road and Transport Development designated seven roads located in Umnugobi, Khovd and Dornod provinces as special-purpose auto roads pursuant to the relevant provisions of the Law on Auto Road, whereas auto roads used or to be used for export transportation of mineral products are defined as special-purpose auto roads. This designation included the 32 km road between Ukhaa Khudag mine and Baruun Naran mine ("**UHG-BN road**") built and commissioned by the Group in 2012.

Under the Law on Auto Road, such special-purpose roads are considered as a public property, but can be possessed and operated by private entities based on an agreement entered into with the Ministry of Road and Transport Development ("**Ministry**"). Currently, the Group is in process to finalise such agreement with Ministry in accordance with the relevant legal provisions. The Group believes that entering into such agreement with the Ministry will be beneficial for its operations by establishing clear legal base for UHG-BN road operations, including the Group's right to control access by any third parties under commercial terms.

Taxation, Accounting and Financial Reporting related legislation

The revised General Law on Taxation, the Law on Corporate Income Taxation, and the Law on Personal Income Taxation of Mongolia along with the amendments to the Law on Value Added Tax ("**VAT**") came into effect from 1 January 2020 and the respective implementation rules and regulations continue to be adopted by the relevant authorities.

On 26 November 2019, the GoM signed the Convention on Mutual Administrative Assistance in Tax Matters of the Organization for Economic Co-operation and Development, which entered into force from 1 June 2011. As a signatory to the convention, effective from 1 June 2020, Mongolia will be able to exchange tax related information with tax authorities in 135 countries.

BUSINESS OVERVIEW

Coal Resources and Exploration Activities

Ukhaa Khudag (UHG) deposit

The UHG deposit sits within the 2,960 hectare Mining License MV-011952 ("**UHG mining license**"), granted to the Group effective for 30 years from 29 August 2006, 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 of which is stated as of 31 December 2014 and four Coal Resource updates.

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). The last update stated as at 31 December 2019 was made only on the basis of revised surface topography, to account for depletion as a result of mining activity between 1 January 2019 to 31 December 2019, and 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 2019, included:

- 1,556 individual boreholes drilled for 191,275 metres ("**m**"), including 104,369m of HQ-3 (63.1 millimetre ("**mm**") core, 96.0mm hole diameter) and 86,906m of 122mm diameter open hole drilling;

- 37,548 individual analytical samples collected and analysed;

- 71 kilometres ("**km**") of high resolution 2D seismic 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 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 2. No further exploration activities have been conducted within the UHG mining license area in 2019 and only geotechnical drilling has been conducted in the northern part of the pit. Total geotechnical drilling was 241.5m and the result has been reported to the Group's mining planning team.

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 peer audit 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 2. UHG mining license JORC (2012) compliant Coal Resource update, by depth and category, as at 31 December 2019 (Notes):

Total Coal Resource Depth limit from topographic surface	**Resource Category (Mt)**				
	Measured	**Indicated**	**Inferred**	**Total (M+I)**	**Total (M+I+I)**
Subcrop to Base Horizon of Weathering Elevation ("**BHWE**")	1	3	5	4	9
BHWE to 100m	55	22	16	77	93
From 100m to 200m	79	47	25	126	151
From 200m to 300m	90	64	21	154	175
From 300m to 400m	57	35	15	92	107
Below 400m	40	44	30	84	114
Sub-Total above 300m	225	136	67	361	428
Sub-Total below 300m	97	79	45	176	221
Total	**322**	**215**	**112**	**537**	**649**
Total (Rounded)	**320**	**210**	**110**	**540**	**650**

Notes:

(i) Technical information in the UHG Coal Resource estimation report has been compiled by Mr. Lkhagva-Ochir Said, Executive General Manager and Head of Mining and Processing, Mongolian Mining Corporation. Mr. Said is a member of the Australasian Institute of Mining and Metallurgy (Member #316005) and has over 12 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 and the release of the matters based on this information in the form and context in which it appears in this announcement. The estimates of the Coal Resource set out in Table 2 presented in this announcement are considered to be a true reflection of the UHG Coal Resource as at 31 December 2019, 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 29 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).

Baruun Naran (BN) deposit

The BN deposit is covered by two mining licenses. Mining License MV-014493 ("**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, stated as of 30 June 2012 and 30 April 2013 for the BN mining license and the THG mining license respectively. The last update stated for BN and Tsaikhar Khudag ("**THG**") as at 31 December 2019 was made only on the basis of revised surface topography, to account for depletion as a result of mining activity between 1 October 2017 to 31 December 2019, and no further exploration data was incorporated.

During 2018, 8,335.4m depth infill drilling was conducted at the BN deposit. The drilling focused on H pit mining boundary. A total of 3,766 samples were collected and tested, confirming the coal quality and coal seam structure. The drilling was not conducted for resource update purposes.

The Coal Resource stated as at 30 June 2015 incorporated 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 Coal Resource statement as at 31 December 2019:

- total of 92 exploration boreholes at BN, with a total of 28,540m drilled, of which 14,780m were HQ-3, 9,640m were PQ-3 (83.0 mm core, 122.6mm hole diameter) and 4,120m were 122 mm diameter open boreholes;

- total of 32 exploration boreholes at 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 Geocheck 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 Coal Resource statement as at 31 December 2019 for BN and THG mining license areas are shown in Table 3 and Table 4. The figures in these tables represent calculation based upon in situ density at an assumed 5% moisture basis.

Table 3. BN mining license JORC (2012) compliant Coal Resource update, by depth and category, as at 31 December 2019 (Notes):

Total Coal Resource	**Resource Category (Mt)**				
Depth limit from topographic surface	**Measured**	**Indicated**	**Inferred**	**Total (M+I)**	**Total (M+I+I)**
Subcrop to BHWE	9	2	1	11	12
BHWE to 100m	41	9	3	50	53
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
Sub-Total above 300m	179	35	16	214	230
Sub-Total below 300m	70	16	9	86	95
Total	**249**	**51**	**25**	**300**	**325**
Total (Rounded)	**250**	**50**	**30**	**300**	**330**

Table 4. THG mining license JORC (2012) compliant Coal Resource update, by depth and category, as at 31 December 2019 (Notes):

Total Coal Resource	**Resource Category (Mt)**				
Depth limit from topographic surface	**Measured**	**Indicated**	**Inferred**	**Total (M+I)**	**Total (M+I+I)**
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	–	–	19	–	19
Sub-Total above 300m	–	–	54	–	54
Sub-Total below 300m	–	–	19	–	19
Total	**–**	**–**	**73**	**–**	**73**
Total (Rounded)	**–**	**–**	**70**	**–**	**70**

Notes:

(i) *Technical information in the BN deposit Coal Resource estimation report has been compiled by Mr. Lkhagva-Ochir Said, Executive General Manager and Head of Mining and Processing, Mongolian Mining Corporation. Mr. Said is a member of the Australasian Institute of Mining and Metallurgy (Member #316005) and has over 12 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 and the release of the matters based on this information in the form and context in which it appears in this announcement. The estimates of the Coal Resource set out in Table 3 and Table 4 presented in this announcement are considered to be a true reflection of the BN deposit Coal Resource as at 31 December 2019, 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 29 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

Ukhaa Khudag (UHG) deposit

The Group engaged Glogex Consulting LLC ("**Glogex**") to prepare an updated JORC (2012) Coal Reserve statement as at 1 January 2020 for the UHG deposit. 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. The last reserve statement was made on the basis of revised surface topography, to account for depletion as a result of mining activity between 1 January 2019 to 1 January 2020.

Pit optimisation 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 of 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 and 0AU from thermal to coking coal production, based upon results observed during production trials in 2017;

- 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 prepared by Fenwei, 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.

The run-of-mine ("**ROM**") raw coal tonnages resulting from the updated statement of the JORC (2012) Coal Reserve estimate for the UHG deposit as at 1 January 2020 based upon an as-received basis with 2.97 % total moisture, are shown in Table 5.

Table 5. UHG mining license JORC (2012) Coal Reserve estimate, as at 1 January 2020 (Notes):

ROM Coal Reserve	**Reserve Category (Mt)**		
Coal Type	**Proved**	**Probable**	**Total**
Coking	184	116	300
Thermal	11	2	13
Total	**295**	**118**	**313**

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 UHG Coal Reserve estimation report has been compiled by Mr. Naranbaatar Lundeg, who is a member of the Australasian Institute of Mining and Metallurgy (Member #326646). He is the General Director and Executive Consultant of Glogex. He holds a bachelor's degree of mining industrial management and a master's degree of business administration in the field of financial management. He has extensive experience in the mining industry, having worked with major mining companies and as a consultant for over 18 years. During this time, he has either managed or contributed significantly to numerous mining studies related to the estimation, pit optimisation, mine planning, assessment, evaluation and economic extraction of coal in Mongolia. He has sufficient experience which is relevant to the style of mineralisation 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. Lundeg consents to the inclusion and the release of the matters based on this information in the form and context in which it appears in this announcement.

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

Baruun Naran (BN) deposit

Coal Reserve statement for the BN deposit was prepared by Glogex with the resulting statement dated 1 January 2020. The LOM mining plan prepared to underpin the current JORC (2012) Coal Reserve estimate for the BN deposit was based upon open cut, multi seam, truck and excavator mining methods. Pit optimisation 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 were used for implementation of the following:

- limitation of open pit depth to 360 m from surface, and overall slope angle restrictions, based upon geotechnical advice received from Mr. John Latilla of AMC;

- categorisation of coal seams for scheduling purposes on basis of propensity for coking or thermal coal production, based upon recommendations made by Mr. John Trygstad of Norwest;

- cost input assumptions based on stripping and blasting estimates derived from the current mining contractors;

- revenue input assumptions derived from an updated market study of the principal coking and thermal coal markets in China, completed by Fenwei.

The JORC (2012) Coal Reserve estimate for the BN deposit prepared on basis of the above is summarised in Table 6, with tonnage estimation based on an as-received basis with 4.5% total moisture. The last reserve statement was made on the basis of surface topography depletion due to mining activity between 1 January 2019 to 1 January 2020.

Table 6. BN mining license JORC (2012) Coal Reserve estimate, as at 1 January 2020 (Notes):

ROM Coal Reserve	**Reserve Category (Mt)**		
Coal Type	**Proved**	**Probable**	**Total**
Coking	162	12	174
Thermal	0	0	0
Total	**162**	**12**	**174**

Notes:

(i) *The estimate of Coal Reserve presented in Table 6 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. Naranbaatar Lundeg, who is a member of the Australasian Institute of Mining and Metallurgy (Member #326646). He is the General Director and Executive Consultant of Glogex. He holds a bachelor's degree of mining industrial management and a master's of business administration in the field of financial management. He has extensive experience in the mining industry, having worked with major mining companies and as a consultant for over 18 years. During this time, he has either managed or contributed significantly to numerous mining studies related to the estimation, pit optimisation, mine planning, assessment, evaluation and economic extraction of coal in Mongolia. He has sufficient experience which is relevant to the style of mineralisation 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. Lundeg consents to the inclusion and the release of the matters based on this information in the form and context in which it appears in this announcement.*

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

Production and Transportation

Coal Mining

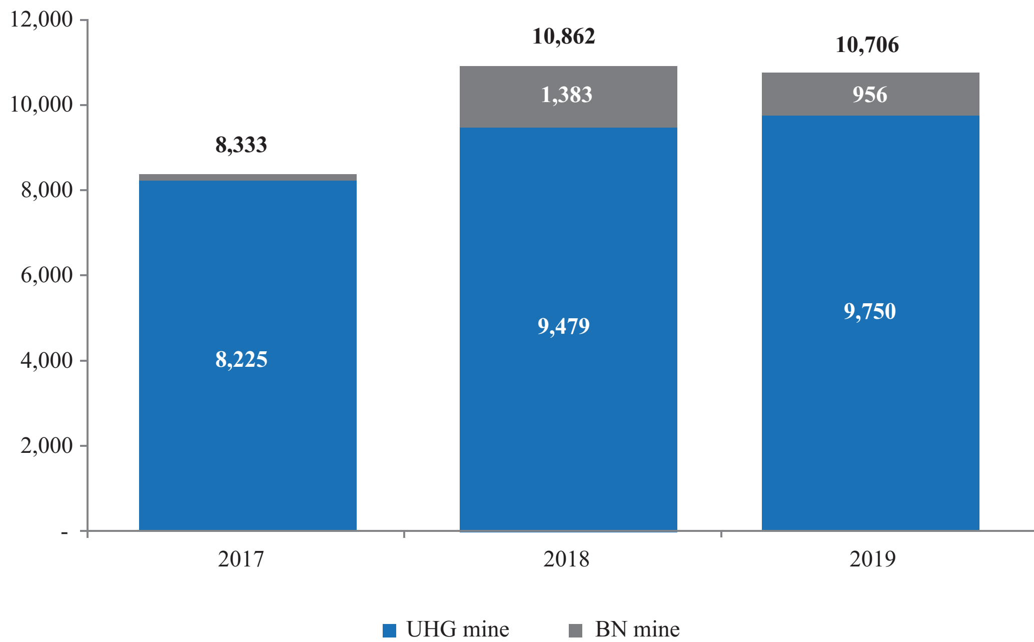
The Group's total ROM coal production reached 10.7 Mt in 2019, of which 9.7 Mt and 1.0 Mt of ROM coal was produced from UHG mine and BN mine, respectively.

To access coal, a total of 54.6 million bank cubic metres ("**bcm**") of prime overburden was removed, resulting in an actual stripping ratio of 5.6 bcm per ROM tonne for the year at UHG mine. The higher stripping ratio in 2019 as compared to the previous year was due to deliberate adjustments undertaken by the management to the mining schedules by targeting coal mining in higher stripping ratio areas in order to smoothen mid and long-term production profile.

At BN mine, to access coal, a total of 6.9 million bcm of prime overburden was removed, resulting in an actual stripping ratio of 7.2 bcm per ROM coal tonne for the period.

The Group's combined annual mine production from UHG and BN mines for the last three years is shown in Figure 1.

Figure 1. The Group's annual ROM coal production volumes (in thousand tonnes) for 2017-2019:

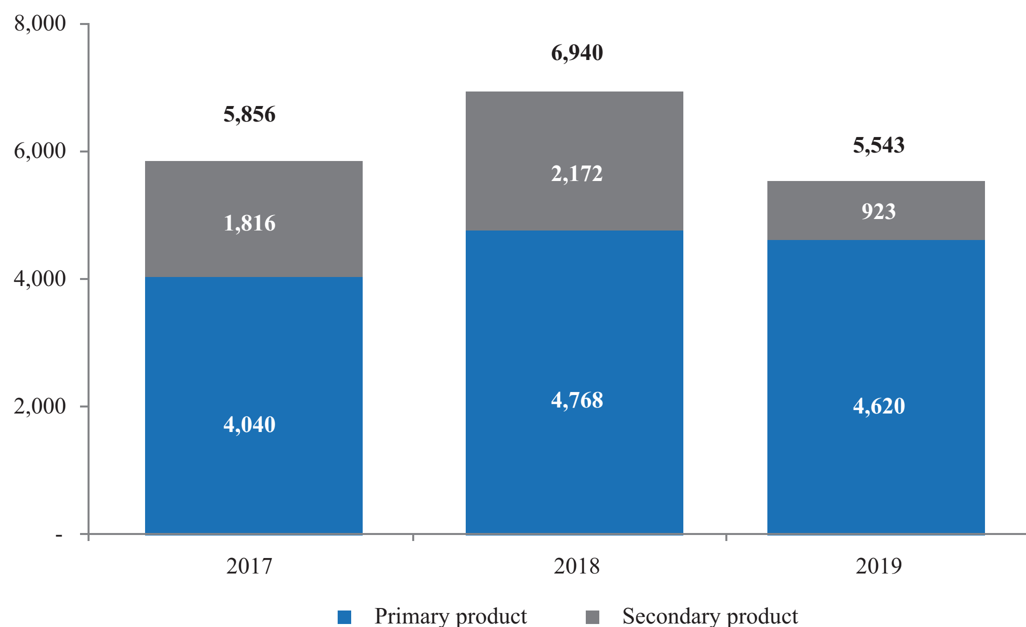


Coal Processing

The Group has processed a total of 9.2 Mt ROM coking coal in 2019, of which 8.3 Mt and 0.9 Mt was sourced from UHG and BN mines, respectively. The coal handling and preparation plant ("**CHPP**") has produced 4.6 Mt of washed coking coal as a primary product at 50.3% yield, and 0.9 Mt of washed thermal coal as a secondary product at 9.2% yield. The secondary product yield was lower compared to previous periods due to a changing product target ash content at dry basis from 20%-22% to 14%-16% and an increase of the typical gross calorific value as at received basis from 6,000 kcal/kg to 6,500 kcal/kg. In addition, the Group's CHPP has processed 144 thousand tonnes ("**kt**") of ROM thermal coal from UHG mine to produce 80 kt of washed thermal coal.

The Group's washed coal production for the last three years are shown in Figure 2.

Figure 2. The Group's annual processed coal production volumes (in thousand tonnes) for 2017-2019:



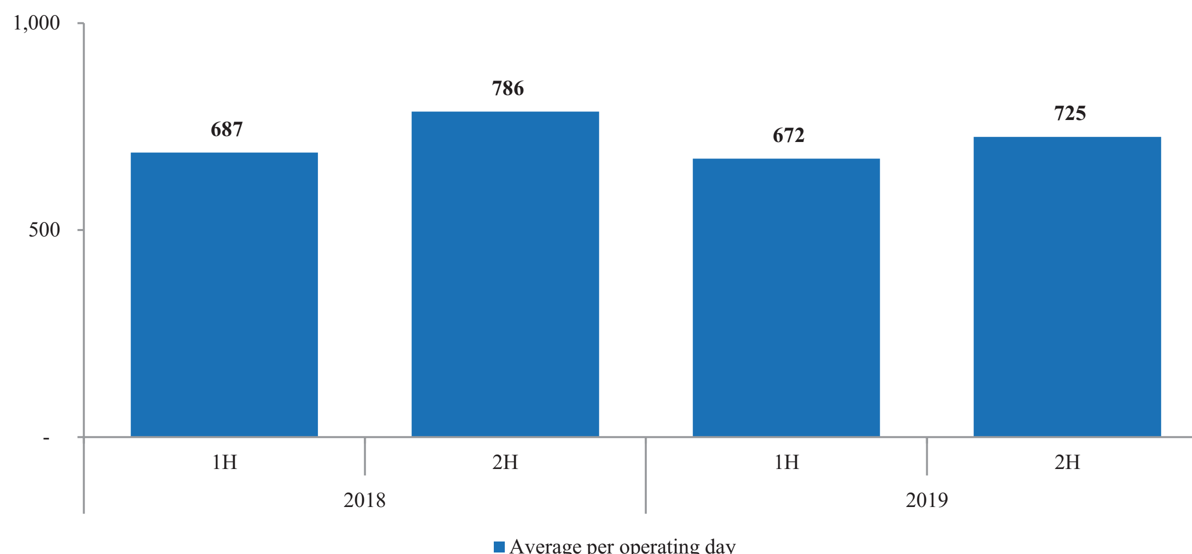
Transportation and Logistics

In 2019, the Group shipped all its coal products for exports to China utilizing trans-shipping facility at Tsagaan Khad ("**TKH**"). Coal was transported from UHG to TKH exclusively by own trucking fleet. Coal was stockpiled at TKH and after export clearance by Mongolia Customs shipped further by trucks from TKH to GM. The transportation of coal from TKH to GM was performed by own trucking fleet and by third party contractors as well.

In 2019, the Group's coal export transportation from Mongolia to China via GS-GM border crossing point increased by 2.8% from previous year and reached 4.8 Mt, of which 33% was carried by utilizing own trucking fleet and remaining 67% by third party contractors.

The cross-border logistic bottlenecks remain as the main factor limiting potential increase for coal export volumes from Mongolia to China via GS-GM border crossing point, as shown in Figure 3.

Figure 3. Average cross border throughput via GS-GM in trucks per operating day for 2018-2019:



According to the data compiled by the Group and its customers, a total of 204,130 coal-loaded trucks passed from Mongolia to China via GS-GM during 292 operating days in 2019, which represents 2% decrease from 208,398 coal-loaded trucks passing during 282 operating days in 2018.

The Group's coal products delivered to GM were transported by 44,519 trucks in 2019 (2018: 55,794 trucks). Thus, during the reporting period, the Group has improved its cross-border transportation efficiency by reducing the number of trucks utilised by 20.2%.

Occupational Health, Safety and Environment

In July 2019, the Group passed the periodical surveillance audit performed by AFNOR Group, an international standardization and accreditation institution and a member of the International Organization for Standardization ("**ISO**"), for continued implementation of an Integrated Management System ("**IMS**"), which includes international standards ISO 14001:2015 (Environmental management) and OHSAS 18001:2007 (Occupational Health and Safety management).

During the reporting period, approximately 9.2 million man-hours were recorded as worked by employees, contractors and sub-contractors of the Group. During 2019, six occurrences of Lost Time Injury ("**LTI**") were recorded, resulting in a Lost Time Injury Frequency Rate ("**LTIFR**") of 0.66 LTIs per million man-hours worked equivalent being recorded.

The Group identified and remedied 17 situations that may pose risks classified as class 1, risks that could result in fatality or permanent disabling injury, throughout our operational areas. Additional training and safety inductions were conducted as part of the countermeasure for the situations identified for all employees and contractors.

Risk assessment and safety analysis were conducted during the reporting period to minimise or eliminate work-related hazards and to enhance awareness of daily safety routines among the Group's employees. Routine working condition inspections and checks were performed, including monitoring heat, noise, lighting, vibration, dust and toxic gases. During the reporting period, the Group engaged a third-party to perform Occupational Health Risk Assessment and Workplace Condition Monitoring.

The Group continued to deliver Occupational Health, Safety and Environment specific training to employees, contractors, sub-contractors and visitors, with 14,454 training sessions to individuals, totaling 64,486 man-hours in 2019.

In 2019, the Umnugobi Province's Specialised Inspection Agency conducted their periodical review for the Group's operations and issued official evaluation report according to which the Group was evaluated at "low risk" level with a check list score 86.5 out of 100.0.

The Group's "Incident Investigation and Reporting Procedures" were updated in July 2019 and environmental incidents, classifications and reporting were included within the updated procedure. Accordingly, the risk rating scale uses five classifications which are low, minor, moderate, high and extreme. More specific classifications were developed for each environmental risk subjects including oil spills, waste disposal, land disturbance, air emissions, fatal injury and others.

In 2019, the Group recorded no environmental incidents with "high" or above classifications. One incident occurred with "low" classification which were related to oil spillage. For all incidents, full investigations were carried out to identify the root causes, and corrective and preventive actions were taken to prevent re-occurrences.

In accordance with the Law on Environmental Protection, an external independent audit on environmental management was conducted at the UHG mine site in October 2019. The results in the areas of environmental management and legal compliance was rated at 95.2% out of 100%.

Sales and Marketing

Washed coking coal products are dispatched from Mongolia after export customs clearance to designated customs bonded yards at GM. Once import customs clearance and quality inspections are completed by relevant authorities at GM, washed coking coal products are delivered to ultimate customers under FOT GM terms or further transported within China for delivery to the customers' location under Cost-and-Freight ("**C&F**") terms. Washed thermal coal is exported and sold under Delivery-at-Place ("**DAP**") GM terms. Local sales to customers located in Mongolia are performed under mine-gate basis by loading to customers' designated trucks.

In 2019, the Group sold a total of 5.1 Mt of coal products to its customers located in China and Mongolia, which represented 7.7% increase from previous year. Split by coal product type as follows: (i) 4.0 Mt of HCC; (ii) 0.6 Mt of SSCC; and (iii) 0.5 Mt of thermal coal.

The Group sold the majority of its products to its customers located in China. The Group maintained and increased its coal sales through its existing sales channels mainly in Inner Mongolia, Gansu, Hebei and Tianjin by further strengthening its relationship with its existing customers' base.

For local sales, the Group sold 81 kt of SSCC, 198 kt of washed thermal coal and 48 kt of raw thermal coal to customers located in Mongolia. In addition, in 2019, as part of the Group's social contribution, 0.7 Mt of washed thermal coal was supplied free of charge from mine gate at UHG by Energy Resources LLC ("**ER**") to Tavan Tolgoi Tulsh LLC ("**TTT**"). TTT is a state-owned entity, which is designated for manufacturing and distributing coal briquettes to Ulaanbaatar residents under the GoM's program to reduce air pollution and improve air quality.

OUTLOOK AND BUSINESS STRATEGIES IN 2020

The Group will aim to maximise its production and sales volumes in 2020, subject to resolving inefficient cross border logistics, which is the main obstacle to our ability to meet elevated demand from our customers. The ultimate intention is to ramp up production output in a safe manner by fully utilizing existing capacity, whilst managing working capital requirements and continuing to focus on cost control. Reducing environmental footprint from our operations shall also remain as the main priority, including minimising power and water usage rates. The management shall continue to maximise transportation and logistics efficiency by implementing strategic change solutions. Increasing sales volume shall be achieved by adopting aggressive marketing strategy to expand market penetration with direct access to ultimate end-user customers.

The Company intends 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 to provide 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.

FINANCIAL REVIEW

Revenue

The Group sold approximately 5.1 Mt of coal products and generated a total revenue of USD626.6 million during the year ended 31 December 2019, compared to 4.7 Mt of coal products sold and USD590.7 million of total revenue generated during the year ended 31 December 2018. Total sales in 2019 include approximately 4.0 Mt of HCC, 0.6 Mt of SSCC and 0.5 Mt of thermal coal, compared to 3.9 Mt of HCC, 0.4 Mt of SSCC and 0.4 Mt of thermal coal sold during 2018.

The average selling price ("**ASP**") for HCC was USD140.0 per tonne for the year ended 31 December 2019 compared to USD139.7 per tonne in 2018. In particular, the ASP for HCC under FOT GM and C&F terms were USD136.4 per tonne and USD172.7 per tonne, respectively, for the year ended 31 December 2019 (USD135.6 and USD170.1 in 2018). The ASP for SSCC under FOT GM and C&F terms were USD96.2 per tonne and USD142.6 per tonne, respectively, during the reporting period, compared to the ASP of USD92.9 and USD141.0 per tonne, respectively, during 2018. The ASP represents the price exclusive of applicable VAT in China.

During the reporting period, the Group derived individually more than 10.0% of its revenue from three customers, with purchase amounts of approximately USD305.6 million, USD82.4 million and USD67.0 million. For the year ended 31 December 2018, the Group derived individually more than 10.0% of its revenue from two customers, with purchase amounts of approximately USD242.2 million and USD112.5 million.

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 year ended 31 December 2019, the total cost of revenue increased to USD374.5 million from USD360.3 million during the year ended 31 December 2018, due to higher sales volume. From the total cost of revenue, USD335.9 million was attributable to coal products sold from the UHG mine and USD38.6 million was attributable to coal products sold from the BN mine.

Table 7. Total and individual costs of revenue:

	Year ended 31 December	
	2019	2018
	(USD'000)	*(USD'000)*
Cost of revenue	**374,534**	360,310
Mining costs	**136,026**	126,420
Variable costs	**74,690**	63,159
Fixed costs	**38,627**	43,158
Depreciation and amortization	**22,709**	20,103
Processing costs	**48,548**	42,876
Variable costs	**15,944**	15,144
Fixed costs	**7,716**	4,284
Depreciation and amortization	**24,888**	23,448
Handling costs	**13,519**	11,400
Transportation costs	**103,470**	117,784
Logistic costs	**6,438**	5,428
Site administration costs	**21,323**	16,125
Transportation and stockpile loss	**8,013**	4,929
Royalties and fees	**37,197**	35,348
Royalty	**30,627**	28,855
Air pollution fee	**3,727**	3,632
Customs fee	**2,843**	2,861

The mining costs consist of costs associated with overburden and topsoil removal and ROM coal extraction, including costs related to mining staff and equipment, together with base and performance fees paid to the mining contractor, blasting contractor fees, and fuel costs. The mining contractor's base fee is indexed to the market coal price and is charged based on the total number of fleet utilised under the mining contract.

Unit mining cost increased to USD14.7 per ROM tonne for the reporting period, compared to USD13.7 per ROM tonne in 2018, mainly due to an increase in plant costs from scheduled major overhaul maintenance performed during the reporting period. On the other hand, the Company demobilised certain mining fleet under the mining contract during the reporting period as a measure to decrease immediate costs being borne by the Group, which resulted in the reduction of contractor fees paid to the mining contractor.

The Group identifies components of the mine in accordance with the mine plan. Accounting of the unit mining cost is based on the accounting stripping ratio applicable to each component of the mine, which was mined during the respective reporting periods. The average accounting stripping ratio for components mined during the year ended 31 December 2019 was 3.5 bcm per tonne, compared to 3.2 bcm per tonne for the year ended 31 December 2018.

Table 8. Unit mining cost per ROM tonne:

	Year ended 31 December	
	2019	2018
	(USD/ROM tonne)	*(USD/ROM tonne)*
Total	**14.7**	13.7
Blasting	**1.0**	0.9
Plant cost	**4.5**	3.5
Fuel	**2.6**	2.4
National staff cost	**0.9**	0.7
Expatriate staff cost	**0.2**	0.2
Contractor fee	**3.1**	3.7
Ancillary and support cost	**0.02**	0.1
Depreciation and amortization	**2.4**	2.2

The mining costs are not only recorded in the income statement but also cost of pre-stripped overburden, which is associated with the coal to be mined, processed, transported and sold in the future, is capitalised in the balance sheet as mining structure and subsequently amortised once attributable ROM coal is extracted according to the mining operations progress.

The processing costs primarily include costs associated with operations of the CHPP including power generation and water extraction costs. During the year ended 31 December 2019, the Group's processing costs were approximately USD48.5 million (2018: USD42.9 million), of which approximately USD24.9 million was related to the depreciation and amortization of the CHPP, USD5.3 million was costs related to power generation and distribution, and USD1.9 million was costs incurred for water extraction and distribution related to the washed coal sold during the reporting period.

Unit processing cost calculated per ROM coal in-feed tonne was USD4.8 per ROM tonne for the year ended 31 December 2019 and USD4.6 per ROM tonne for the year ended 31 December 2018. The slight increase in the unit processing cost was due to a lower volume of ROM coal in-feed during the reporting period compared to the previous reporting period, which resulted in slightly higher depreciation and amortization cost per ROM tonne basis.

Table 9. Unit processing cost per ROM tonne:

	Year ended 31 December	
	2019	2018
	(USD/ROM tonne)	*(USD/ROM tonne)*
Total	**4.8**	4.6
Consumables	**0.3**	0.3
Maintenance and spares	**0.6**	0.7
Power	**0.6**	0.5
Water	**0.2**	0.2
Staff	**0.3**	0.2
Ancillary and support	**0.1**	0.2
Depreciation and amortization	**2.7**	2.5

The handling costs are related to feeding ROM coal from ROM coal stockpiles to the CHPP, raw and thermal coal handling and also the removal of course reject (primarily rock and sediment separated from coal) after coal processing. During the year ended 31 December 2019, the Group's handling costs were approximately USD13.5 million (2018: USD11.4 million). The handling cost increase was mainly due to coal stockpile management measures undertaken for the purposes of optimizing thermal coal stockpiles and preserving the quality during storage.

During the year ended 31 December 2019, the Group's transportation costs were USD103.5 million (2018: USD117.8 million) including fees paid for the usage of the UHG-GS paved road.

The Group used two-step shipment for coal export transportation from the mine area to GM during the reporting period. The first step is around 240 km long-haul section from UHG to TKH, the transshipment yard on the Mongolian side of the border. On this long-haul section (UHG-TKH), the Group used solely its own double-trailer trucking fleet with transportation cost of USD7.1 per tonne during the year ended 31 December 2019 compared to USD7.3 per tonne for the year ended 31 December 2018.

The second step is around 20 km cross border short-haul shipment between TKH and GM, the Chinese side of the Sino-Mongolian border crossing. Whereas, on this short-haul (TKH-GM) section during the reporting period, the Group utilised a combination of its own trucking fleet with cost of USD4.7 per tonne, as well as fleet from third party contractors with an average cost of USD19.3 per tonne. The Group focused on increasing the volume transported by own trucking fleet, which was facilitated by the expansion of own trucking fleet capacity by additional 150 double-trailer trucks in 2018. As a result, the Group was able to decrease the unit transportation cost on the short-haul (TKH-GM) section during the reporting period.

Therefore, the total unit transportation cost from UHG to GM, including third-party contractors, decreased to USD21.6 per tonne for the year ended 31 December 2019 from USD25.5 per tonne for the year ended 31 December 2018.

For the year ended 31 December 2019, the Group recorded a total transportation loss of around USD3.0 million (2018: USD1.7 million), and unrealised inventory loss of USD5.0 million for ROM coal and washed coal product stockpiles (2018: USD3.2 million). The transportation loss and unrealised inventory loss increased as the Group used the two-step shipment throughout the reporting period, whereas in 2018 the Group used direct shipments from UHG to GM mainly. 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. 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. Hence, 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 improving overall inventory management, the Company will be in a position to keep inventory losses under control.

Other components of the cost of revenue are site administration costs and logistics costs, amounting to USD21.3 million and USD6.4 million, respectively, for the year ended 31 December 2019 (2018: USD16.1 million and USD5.4 million, respectively). Site administration costs are primarily associated with the site support facilities, such as overall supervision and management of the Group's mining, processing, transportation, and laboratory activities. Logistics costs are associated with loading and unloading of coal products at UHG and TKH. The increase in site administration and logistics costs were mainly related to the increased transportation and sales volume, and coal transportation via TKH transshipment yard compared to the previous reporting period.

Governmental royalties and fees are related to royalties, air pollution fees and customs fees paid in accordance with the applicable laws and regulations of Mongolia. The progressive royalty rate is applied in the range of 5% to 8% for processed coal products and 5% to 10% for raw coal products based on monthly reference price determined by the relevant governmental authorities of Mongolia. Starting from 1 February 2016, the contract prices were allowed to be used for calculating royalty rates. However, if the coal exporter fails to comply with the respective requirements for royalty calculation based on the contractual prices, the royalty would be calculated based on the benchmark reference price. The Group's effective royalty rate for the year ended 31 December 2019 was approximately 6.0% for coal exported from Mongolia based on customs clearance documentation (2018: 5.5%).

Gross Profit

The Group's gross profit for the year ended 31 December 2019 was approximately USD252.1 million, representing an increase of 9.4% compared to the gross profit of approximately USD230.4 million recorded for the year ended 31 December 2018.

Non-IFRS Measure

Certain parts of financial reporting and disclosure may contain non-IFRS financial measures and ratios, such as EBITDA, adjusted EBITDA, free cash flow and net debt, which are not recognised measures of financial performance or liquidity under IFRS. The non-IFRS financial measures presented are measures used by the management to monitor the underlying performance of the business and operations and are presented because they are considered important supplemental measures of performance, and the Group believes that these and similar measures are widely used in the industry in which the Group operates as a way to evaluate operating performance and liquidity. Not all companies calculate non-IFRS financial measures in the same manner or on a consistent basis. As a result, these measures and ratios may not be comparable to the measures used by other companies under the same or similar names.

The Group's adjusted EBITDA for the year ended 31 December 2019 was approximately USD241.6 million, compared to the adjusted EBITDA of approximately USD218.3 million recorded for the year ended 31 December 2018.

Selling and Distribution Costs

The Group's selling and distribution costs were USD54.3 million for the year ended 31 December 2019 (2018: USD61.4 million) which was associated with 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 agent fees. The selling and distribution costs are associated with the sales volume realised under FOT GM and C&F terms for inland China sales activities. Decrease in selling and distribution costs is attributable to higher sales volume realised under FOT GM term and decrease of sales under C&F term compared to the prior reporting period, as associated selling and distribution costs for FOT GM term are lower.

General and Administrative Expenses

The Group's general and administrative expenses relate primarily to head office staff costs, share option expenses, consultancy and professional fees, donations, depreciation and amortization of office equipment and other expenses. For the year ended 31 December 2019, the Group's general and administrative expenses were approximately USD21.8 million (2018: USD16.5 million).

The increase was mainly attributable to expenses associated with 0.7 Mt of washed thermal coal supplied free of charge to TTT for the production of briquettes for household heating to reduce air pollution and improve air quality in Ulaanbaatar during the winter heating season as part of the Group's social contribution.

Net Finance Costs

Net finance costs for the year ended 31 December 2019 were approximately USD45.7 million (2018: USD55.4 million). Net finance costs are comprised of (i) accrued interest expense of 5% to 8% per annum based on benchmark coal price on the Senior Notes due 2022 with initial principal amount of USD412,465,892, of which USD397,847,706 was redeemed on 15 April 2019, (ii) the Senior Loan with initial principal amount of USD31,200,000, which was fully repaid on 12 April 2019, (iii) accrued interest expense of 9.25% per annum on the Senior Notes due 2024 with outstanding principal amount of USD440,000,000 due 15 April 2024, (iv) change in fair value of the derivative component of the Senior Notes due 2022 and the Senior Loan, including the interest rates linked to the benchmark coal price index and cash sweep premium, (v) amortization of the difference between the fair value and the principal amounts due on the Senior Notes due 2022, the Senior Loan and the Senior Notes due 2024 using the effective interest rate method, and (vi) foreign exchange net gain. The decrease in net finance costs was mainly due to the relatively low change in fair value estimation of the derivative components upon redemption of the majority part of the Senior Notes due 2022 and issuance of the Senior Notes due 2024. Breakdown of the net finance costs is set out in note 7 to the consolidated financial statements.

Debt Refinancing

On 18 March 2019, the Company announced an invitation to offer to tender in relation to the Perpetual Notes with principal amount of USD195,000,000, consent solicitation and an invitation to offer to tender in relation to the Senior Notes due 2022 and proposed issuance of the Senior Notes due 2024. On 15 April 2019, upon successful completion of the Debt Refinancing, the Group issued the Senior Notes due 2024 with principal amount of USD440,000,000 bearing interest of 9.25% per annum. The proceeds from the issuance of Senior Notes due 2024 were used (i) to redeem the principal amount of USD397,847,706 of the Senior Notes due 2022 with tender offer consideration of USD1,050 per USD1,000 in principal amount for the total consideration amount of USD417,740,091 and (ii) to repurchase the principal amount of USD23,971,673 of the Perpetual Notes with early tender consideration of USD510 and late tender consideration of USD460 respectively for each USD1,000 principal amount for the total consideration of USD12,220,476.

In addition, the Group fully repaid the Senior Loan with then outstanding principal amount of USD16,200,000 on 12 April 2019. All information relating to the Debt Refinancing is published on the websites of the Company and The Hong Kong Exchanges and Clearing Limited. The remaining indebtedness of the Group as at 31 December 2019 is set out in the section "Indebtedness" on page 53.

The excess of derecognised carrying value of the Senior Notes due 2022 and Senior Loan over the consideration to settle the financial liabilities, amounting to approximately USD21,101,000 has been recognised as a gain from the Debt Refinancing and credited to profit or loss during the year ended 31 December 2019.

Upon completion of the Debt Refinancing and the repayment of the Senior Loan, the following security and pledges were released: CHPP modules 1 and 2, UHG Power Plant, certain water facilities, shares of Mongolian Coal Corporation Limited, Mongolian Coal Corporation S.à.r.l., Enrestechnology LLC, Ukhaa Khudag Water Supply LLC and United Power LLC, certain coal stockpiles, collection accounts and debt reserve account.

Income Tax Expenses

The Group's income tax expenses for the year ended 31 December 2019 were approximately USD38.7 million, compared to approximately USD16.1 million for the year ended 31 December 2018. The increase was mainly attributable to (i) the reversal of deferred taxes upon redemption of the Senior Notes due 2022 and the Senior Loan, which have been previously recognised on fair value accounting of the related derivative components, (ii) the decrease in deferred tax assets recognition arising from exchange rate difference compared to the previous reporting period, and (iii) the increase in taxable income due to increased sales revenue.

Profit for the Period

The profit attributable to equity shareholders of the Company for the year ended 31 December 2019 amounted to approximately USD96.5 million, representing an increase of 16.6% compared to the profit attributable to equity shareholders of the Company of approximately USD82.8 million for the year ended 31 December 2018.

Liquidity and Capital Resources

For the year ended 31 December 2019, the Group's cash needs were primarily related to working capital requirements.

Table 10. Combined cash flows:

	Year ended 31 December	
	2019	2018
	USD'000	*USD'000*
Net cash generated from operating activities	**169,341**	158,600
Net cash used in investing activities	**(97,242)**	(89,373)
Net cash used in financing activities	**(63,894)**	(43,028)
Net increase in cash and cash equivalents	**8,205**	26,199
Cash and cash equivalents at beginning of the year	**33,035**	7,460
Effect of foreign exchange rate changes	**(621)**	(624)
Cash and cash equivalents at end of the year	**40,619**	33,035

Note: USD97.2 million used in investing activities comprises of USD89.2 million incurred for payments of deferred stripping activity, USD8.3 million used for payments of payables for purchase of property, plant and equipment and USD0.3 million generated from interest income.

Cash balance of USD40.6 million as at 31 December 2019 stated in Table 10 above consists of (i) consolidated cash balance of USD24.3 million at ER, an indirect wholly-owned subsidiary of the Company, which includes ER and Energy Resources Corporation LLC and their respective subsidiaries ("**ER Group**"), and (ii) cash balance of USD16.3 million at remaining subsidiaries, including Khangad Exploration LLC and other investment holding and trading subsidiaries of the Company. Cash and cash equivalents are mainly held in USD, RMB and MNT.

The gearing ratio (calculated based on the fair value of total bank and other borrowings as stated in the consolidated financial statements of the Group as at 31 December 2019 divided by total assets) of the Group as at 31 December 2019 was 25.9% (31 December 2018: 27.8%). All borrowings are denominated in USD.

Indebtedness

As at 31 December 2019, the Group had USD454.6 million outstanding principal payments consisting of (i) USD14.6 million Senior Notes due 2022 and (ii) USD440.0 million Senior Notes due 2024.

Credit Risk

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

As at 31 December 2019, the Group had approximately USD16.9 million in trade receivables and USD84.2 million in other receivables. As at 31 December 2018, the Group had approximately USD5.9 million in trade receivables and USD95.6 million in other receivables.

According to the Group's internal Credit Policy (the "**Credit Policy**"), the Group holds periodic Credit Committee meetings to review, assess and evaluate the Group'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 a single customer, and the maximum contractual term for unsecured limit. The management continues to monitor, on an ongoing basis, the exposure, including but not limited to, the current ability to pay, and takes into account information specific to the customer and pertaining to the economic environment in which the customer operates.

With regard to other receivables of USD84.2 million, this amount is mainly related to USD32.8 million VAT receivables and USD50.8 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.

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 31 December 2019 and 31 December 2018 amounted to USD24.5 million and USD10.2 million, respectively. Total borrowings denominated in the currency other than the functional currency of the entity to which they relate amounted to nil as at 31 December 2019 and 31 December 2018.

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

Pledge of Assets of the Group

As at 31 December 2019, ER pledged its 4,306,791 common shares, being 5.02% 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.

Contingent Liabilities

As at 31 December 2019, 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 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 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, 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.

Under the royalty provision 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**"), that became effective on the Listing Date on 13 October 2010, in which the Board is authorised, at its discretion, to grant to eligible participants options to subscribe for shares ("**Share Options**" or "**Options**") subject to the terms and conditions stipulated therein as incentives or rewards for their contributions to the Company.

Under the Share Option Scheme, the Company granted 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 Hong Kong Dollar ("**HKD**") 6.66. The outstanding number of the Share Options was adjusted to 37,591,913 Share Options due to the rights issue in December 2014, and further adjusted to 3,759,191 Share Options due to the share consolidation in August 2019. Concurrently, the exercise price of the Share Options was adjusted to HKD4.53 due to the rights issue and further adjusted to HKD45.3 due to the share consolidation. On 12 October 2019, the Share Options granted on 12 October 2011 lapsed after 8 years since the allocation and no Share Options were exercised during the period.

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. The outstanding number of the Share Options was adjusted to 31,985,294 Share Options due to the rights issue in December 2014, and further adjusted to 3,198,529 Share Options due to the share consolidation in August 2019. Concurrently, the exercise price of the Share Options was adjusted to HKD2.67 due to the rights issue and further adjusted to HKD26.7 due to the share consolidation.

On 10 June 2015, the Company granted another 60,000,000 and 94,750,000 Share Options to a director and employees respectively, at the exercise price of HKD0.445. The outstanding number of the Share Options was adjusted to 14,650,000 Share Options and the exercise price was adjusted to HKD4.45 due to the share consolidation in August 2019.

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 outstanding number of the Share Options was adjusted to 13,740,000 Share Options and the exercise price was adjusted to HKD2.392 due to the share consolidation in August 2019.

The fair value of services received in return for Share Options granted is measured with reference to the fair value of Share Options granted. For the year ended 31 December 2019, USD0.3 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 31 December 2019, the capital commitments outstanding on the respective dates on the balance sheet were as follows:

Table 11. Capital commitments:

	As at 31 December 2019	As at 31 December 2018
	USD'000	*USD'000*
Contracted for	**2,461**	3,880
Authorised but not contracted for	**–**	3,255
Total	**2,461**	7,135

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

	Year ended 31 December	
	2019	2018
	USD'000	*USD'000*
CHPP	**6,273**	6,443
Trucks and equipment	**–**	5,406
Others	**3,408**	3,623
Total	**9,681**	15,472

Operating Lease Commitments

As at 31 December 2019, the Group had contracted obligations consisting of operating leases which totalled approximately USD1.3 million due within one year. Lease terms range up to one year, with fixed rentals.

Significant Investments Held

As at 31 December 2019, the Company did not hold any significant investments. Save as disclosed in this annual results announcement, the Company has no future plans for material investment or capital assets in the coming year.

Material Acquisitions and Disposals of Subsidiaries and Associated Companies

For the year ended 31 December 2019, the Company did not have any material acquisitions and disposals of subsidiaries and associated companies.

Other and Subsequent Events

The COVID-19 virus outbreak since early 2020 has brought certain uncertainties in the Group's operating environment.

The GoM announced closure of all ports of entry both from and into China in early February 2020, in order to prevent the spread of the COVID-19 virus in Mongolia. Mongolian coal exports to China have been temporarily suspended from 10 February 2020 and have been revived recently. However, during this period, the Group has been continuing its sales from the existing coal inventory in inland China.

The Group has been closely monitoring the impact of the developments on the Group's businesses and has put in place contingency measures, such as temporary adjustment to levels of production. The Group will keep contingency measures under review as the situation evolves.

Employees

As at 31 December 2019, the number of employees of the Group was 2,096, compared with 1,938 employees as at 31 December 2018.

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.

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

Training and development programs shall be designed for the interest and welfare of the Company and employees. An employee who has completed his/her training is expected to apply the knowledge into practice, and share the newly gained experience with co-workers. The immediate management shall be responsible for the support and supervision of the process. During the year ended 31 December 2019, the Company focused on internally sourced trainings rather than trainings provided by external parties. As at 31 December 2019, a total of 16,171 employees attended different professional trainings, out of which 14,454 employees attended occupational, health, and safety training, 1,467 employees attended professional development training and 250 employees attended general skills development training.

During the reporting period, the Group launched an online safety training for all office workers and provided a new series of specific theoretical and practical trainings to 238 mining heavy equipment operators. In order to improve the skills and methods of our training instructors, they were enrolled in different ISO module trainings as well as given first aid training and additional general skills training.

For the year ended 31 December 2019, the Group's staff costs were USD30.8 million, compared to USD26.9 million in 2018.

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

For the year ended 31 December 2019, 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 a dividend for the year ended 31 December 2019 (dividend for the year 31 December 2018: nil).

Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by the 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 year ended 31 December 2019.

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 Guideline**") who are likely to possess inside information of the Company. No incident of non-compliance with the Employees Written Guideline by the employees was noted by the Company during the reporting period.

Corporate Governance

The Company has adopted the code provisions set out in the Corporate Governance Code (the "**CG Code**") as contained in Appendix 14 to the Listing Rules as its code of corporate governance. The CG Code provision E.1.2 stipulates that the chairman of the board should attend the annual general meeting ("**AGM**") of the Company. Mr. Odjargal Jambaljamts, chairman of the Board, appointed Mr. Chan Tze Ching, Ignatius, independent non-executive Director, to attend and answer questions on his behalf at the 2019 AGM of the Company held on 30 May 2019, as Mr. Odjargal Jambaljamts was unable to attend the 2019 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 for the year ended 31 December 2019.

Review of Annual Results

The auditor of the Company, KPMG, has agreed that the figures in respect of the Group's annual results for the year ended 31 December 2019 contained in this announcement are consistent with the amounts set out in the Group's audited consolidated financial statements for the year in accordance with its engagement under Hong Kong Standard on Related Services 4400 "Engagements to perform agreed-upon procedures regarding financial information" and with reference to Practice Note 730 "Guidance for auditors regarding preliminary announcements of annual results" issued by the Hong Kong Institute of Certified Public Accountants.

Closure of the Register of Members

The register of members of the Company will be closed from Thursday, 4 June 2020 to Tuesday, 9 June 2020, both days inclusive. During such period, no transfer of shares of the Company will be registered. For the purpose of ascertaining the members' entitlement to attend and vote at the forthcoming AGM of the Company to be held on Tuesday, 9 June 2020, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, 3 June 2020.

Review by the Audit Committee

The Audit Committee of the Company currently comprises of one non-executive Director, Ms. Enkhtuvshin Gombo, 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 has reviewed the annual results of the Company for the year ended 31 December 2019.

Publication of Annual Results and Annual Report

The annual results announcement is published on the websites of the Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (www.mmc.mn), and the annual report of the Company for the year ended 31 December 2019 will be despatched to shareholders of the Company and published on the above-mentioned websites in due course.

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

Hong Kong, 23 March 2020

As at the date of this announcement, the Board consists of Mr. Odjargal Jambaljamts and Dr. Battsengel Gotov, being the executive Directors, Mr. Od Jambaljamts, Ms. Enkhtuvshin Gombo and Mr. Enkhtuvshin Dashtseren, being the non-executive Directors, and Dr. Khashchuluun Chuluundorj, Mr. Unenbat Jigjid and Mr. Chan Tze Ching, Ignatius, being the independent non-executive Directors.