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## **MONGOLIAN MINING CORPORATION**

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

**(Stock Code: 975)**

### **CONTINUING CONNECTED TRANSACTIONS**

References are made to the announcements of the Company dated 28 December 2016 and 14 December 2018 in relation to, among others, the provision of office and camp supporting services by USS to the Group and the provision of security services by M-Armor to the Group for the period from 1 January 2017 to 31 December 2019. The Company intends to continue to enter into transactions of the same nature after 31 December 2019, and therefore has arranged tendering processes for the selection of service providers.

During the period from September to October 2019, USS and M-Armor have been selected, through competitive tendering processes, as a service provider for the provision of supporting services for the Company's offices located at Ulaanbaatar and camps and operational sites and as a security services provider to the Group, respectively. On 20 December 2019, the Group entered into the following agreements:

- (i) Service Agreement between USS and Energy Resources, whereby USS agreed to provide office and camp supporting services to the Group for a period starting from 1 January 2020 until 31 December 2022, for an aggregate consideration of up to MNT36,012,151,287 (equivalent to approximately USD13,190,539); and
- (ii) Security Services Agreement between M-Armor and Energy Resources, whereby M-Armor agreed to provide security services to the Group for a period starting 1 January 2020 until 31 December 2022, for an aggregate consideration of up to MNT26,901,809,829 (equivalent to approximately USD9,853,601).

### **LISTING RULES IMPLICATIONS**

Each of USS and M-Armor is a subsidiary of MCS Holding which is in turn wholly-owned and controlled by MCS Mongolia LLC. MCS Mongolia LLC (directly and indirectly) holds 100% shareholding interest in MCS Mining Group Limited, which is a substantial Shareholder holding 31.43% the issued share capital of the Company as at the date of this announcement. As such, USS and M-Armor are connected persons of the Company within the meaning of the Listing Rules. Accordingly, the transactions contemplated under the Service Agreement and Security Services Agreement constitute continuing connected transactions of the Company, respectively.

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

## CONTINUING CONNECTED TRANSACTIONS

### 1. Service Agreement with USS

***Date:***

20 December 2019

***Parties:***

Energy Resources as service purchaser

USS as service provider

***Principal terms:***

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

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

***Consideration and payment terms:***

The maximum aggregate consideration payable by the Group to USS under the Service Agreement is MNT36,012,151,287 (equivalent to approximately USD13,190,539) inclusive of VAT, other applicable taxes and all other costs associated with the services provided by USS.

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

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

***Historical Transaction Amounts:***

Historical transaction amounts incurred by the Group under the service agreement entered into between USS and Energy Resources on 28 December 2016 and expiring on 31 December 2019 are as follows:

<b>Financial Year</b>	<b>Transaction amount</b>	<b>Period covered</b>
31 December 2017	USD3,869,550	12 months from 1 January 2017 to 31 December 2017
31 December 2018	USD5,485,707	12 months from 1 January 2018 to 31 December 2018

Based on the unaudited management accounts, the transaction amount under the service agreement for the period from 1 January 2019 to 30 November 2019 is USD5,777,831.

***Annual caps:***

The following table sets out the proposed annual caps for the Service Agreement for the three financial years ending 31 December 2022:

<b>Financial year ending</b>	<b>Annual caps</b>	<b>Period covered</b>
31 December 2020	MNT12,004,050,429 (equivalent to approximately USD4,396,846)	12 months from 1 January 2020 to 31 December 2020
31 December 2021	MNT12,004,050,429 (equivalent to approximately USD4,396,846)	12 months from 1 January 2021 to 31 December 2021
31 December 2022	MNT12,004,050,429 (equivalent to approximately USD4,396,846)	12 months from 1 January 2022 to 31 December 2022

The annual caps were determined with reference to the internal projection of the amount of services required having regard to (i) the historical transaction amounts in respect of the office and camp supporting services; (ii) the estimated number of employees and properties; (iii) reduction of the scope of work compared to the prior years, due to the assignment of certain locations covered by the services to another contractor; (iv) the bid proposal submitted by USS; and (v) possible additional costs.

***Term of the services:***

The Service Agreement will be effective for the period starting from 1 January 2020 until 31 December 2022.

***Reasons for the transaction:***

In order to select the office and camp support services contractor for the years 2020 to 2022, the Company organized and conducted a competitive bidding process. The Company invited six companies (namely, USS, Lodestone Mogul LLC, ADEN Services Mongolia LLC, Nomads Catering & Integrated Service LLC, Mongol Market LLC and Support Service Mongolia LLC) that are internationally and locally recognized and experienced companies providing office and camp supporting services to participate in the bidding process. Out of the six invitees, five are independent service providers except for USS, but unfortunately, due to unforeseen reasons, only one company which is USS submitted the bid proposal.

The bid proposal from USS was evaluated in detail with reference to the overall scope of services offered, experience, financial capability, technical proposal, commercial proposal, proposed management approach, past proposals submitted by USS in previous years and quality of services provided by USS in previous years.

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

## 2. Security Services Agreement with M-Armor

### ***Date:***

20 December 2019

### ***Parties:***

Energy Resources as service purchaser

M-Armor as service provider

### ***Principal terms:***

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

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

### ***Consideration and payment terms:***

The maximum aggregate consideration payable by the Group to M-Armor under the Security Services Agreement is MNT26,901,809,829 (equivalent to approximately USD9,853,601) inclusive of VAT, other applicable taxes and all other costs undertaken by M-Armor.

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

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

### ***Historical Transaction Amounts:***

Historical transaction amounts incurred by the Group under the security services agreement entered into between M-Armor and Energy Resources on 28 December 2016 and expiring on 31 December 2019 are as follows:

<b>Financial Year</b>	<b>Transaction amount</b>	<b>Period covered</b>
31 December 2017	USD1,851,748	12 months from 1 January 2017 to 31 December 2017
31 December 2018	USD1,703,003	12 months from 1 January 2018 to 31 December 2018

Based on the unaudited management accounts, the transaction amount under the security services agreement for the period from 1 January 2019 to 30 November 2019 is USD1,666,562.

### ***Annual caps:***

The following table sets out the annual caps for the Security Services Agreement for the three financial years ending 31 December 2022:

<b>Financial year ending</b>	<b>Annual caps</b>	<b>Period covered</b>
31 December 2020	MNT8,967,269,943 (equivalent to approximately USD3,284,534)	12 months from 1 January 2020 to 31 December 2020
31 December 2021	MNT8,967,269,943 (equivalent to approximately USD3,284,534)	12 months from 1 January 2021 to 31 December 2021
31 December 2022	MNT8,967,269,943 (equivalent to approximately USD3,284,534)	12 months from 1 January 2022 to 31 December 2022

The annual caps were determined with reference to the number of security posts within the premises of the Group and the estimated number of security guards required and man-month rates having regard to (i) the bid proposal submitted by M-Armor; (ii) increase in the scope of work compared to the prior years; (iii) the historical transaction amounts in respect of the security services; (iv) potential special occasions, events and natural disasters; and (v) potential additional costs.

### ***Term of the services:***

The Security Services Agreement will be effective for the period starting from 1 January 2020 until 31 December 2022.

### ***Reasons for the transaction:***

In order to select the security services contractor for the years 2020 to 2022, the Company organized and conducted a competitive bidding process which enables the Group to secure quality professional services at competitive prices. The Company invited four companies (namely, Bambai Security LLC, MPSS LLC, M-Armor, and Ild Bambai LLC) that are internationally and locally recognized experienced companies which provide security services to participate in the bidding process. Out of the four invitees, three are independent service providers except for M-Armor. Two invitees submitted their bid proposals and two were disqualified at the bid proposal qualification round.

Bid proposals were evaluated in detail with respect to overall scope of services offered, financial capability, technical capability, experience and commercial proposal. M-Armor's bid proposal was evaluated as more favourable than that of MPSS LLC.

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

## **INFORMATION ON THE GROUP**

The Company is principally engaged in mining, processing and transportation and sale of coking coal products in Mongolia.

Energy Resources, an indirect wholly-owned subsidiary of the Company, is principally engaged in the operation of the UHG and BN mine sites in Umnugobi, Mongolia.

## **INFORMATION ON USS AND M-ARMOR**

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

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

MCS Holding is wholly-owned and controlled by MCS Mongolia LLC, which (directly and indirectly) holds 100% shareholding interest in MCS Mining Group Limited, a substantial Shareholder holding 31.43% of the issued share capital of the Company as at the date of this announcement. MCS Mongolia LLC is owned as to 55.11% by Mr. Odjargal Jambaljamts (a Director), and approximately 29.16% by Mr. Od Jambaljamts (a Director).

## **LISTING RULES IMPLICATIONS**

Each of USS and M-Armor is a subsidiary of MCS Holding which is in turn wholly-owned and controlled by MCS Mongolia LLC. MCS Mongolia LLC (directly and indirectly) holds 100% shareholding interest in MCS Mining Group Limited, a substantial Shareholder holding 31.43% of the issued share capital of the Company as at the date of this announcement. As such, USS and M-Armor are connected persons of the Company within the meaning of the Listing Rules. Accordingly, the transactions contemplated under the Service Agreement and Security Services Agreement constitute continuing connected transactions of the Company, respectively.

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

Each of Mr. Odjargal Jambaljamts, Mr. Od Jambaljamts, Ms. Enkhtuvshin Gombo and Mr. Enkhtuvshin Dashtseren, being a Director and a director of MCS Holding has material interest in the transactions contemplated under the Service Agreement and the Security Services Agreement and has abstained from voting on the relevant resolutions of the Board in relation to the approval of the Service Agreement, the Security Services Agreement and the respective relevant annual caps.

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

## DEFINITIONS

“BN”	the Group’s Baruun Naran coal deposit located in the Khankhongor soum, Umnugobi aimag;
“Board”	the board of Directors;
“Company”	Mongolian Mining Corporation (stock code: 975), a company incorporated in the Cayman Islands with limited liability, whose shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited;
“connected person”	has the same meaning ascribed to it under the Listing Rules;
“Director(s)”	director(s) of the Company;
“Energy Resources”	Energy Resources LLC, a company incorporated in Mongolia with limited liability, is an indirect wholly-owned subsidiary of the Company;
“Group”	the Company and its subsidiaries;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
“M-Armor”	M-Armor LLC, a company incorporated in Mongolia with limited liability, a wholly-owned subsidiary of MCS Holding;
“MCS Holding”	MCS Holding LLC, a company incorporated in Mongolia with limited liability;
“MNT”	togrok or tugrik, the lawful currency of Mongolia;
“Security Services Agreement”	the Security Services Agreement between M-Armor and Energy Resources dated 20 December 2019 in relation to the provision of security services by M-Armor to the Group;
“Service Agreement”	the Service Agreement between USS and Energy Resources dated 20 December 2019 in relation to the provision of office and camp supporting services by USS to the Group;
“Share(s)”	ordinary share of USD0.1 each in the share capital of the Company;
“Shareholder(s)”	the registered holders of the Shares;
“UHG”	the Group’s Ukhaa Khudag coal deposit located in the Tavan Tolgoi coalfield;

“USD”	United States Dollar, the lawful currency of the United States of America;
“USS”	Uniservice Solution LLC, a company incorporated in Mongolia with limited liability, is a subsidiary of MCS Holding;
“VAT”	value added tax; and
“%”	per cent.

For the purpose of this announcement, unless otherwise indicated, the exchange rate of USD1.00 = MNT2,730.15, has been used, where applicable, for the purpose of illustration only and does not constitute a representation that any amount has been, could have been or may be exchanged at such rate or at any other rates.

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

Hong Kong, 20 December 2019

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