MONGOLIAN MINING CORPORATION

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 975)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2012

FINANCIAL HIGHLIGHTS

The Group's revenue amounted to approximately USD233.0 million for the six months ended 30 June 2012, representing an increase of approximately USD96.8 million, or 71.1% as compared to USD136.2 million for the six months ended 30 June 2011.

During the period under review, the Group grew its earnings before interest, tax, depreciation and amortization ("**EBITDA**") by 139.6% to approximately USD67.2 million from USD28.1 million for the same period in the previous year.

The profit attributable to equity shareholders of the Company for the six months ended 30 June 2012 was approximately USD31.0 million, representing an increase of approximately USD11.2 million, or 56.2% as compared to USD19.8 million for the six months ended 30 June 2011.

The basic earnings per share attributable to equity shareholders of the Company amounted to approximately USD0.84 cents for the six months ended 30 June 2012, as compared to USD0.54 cents for the six months ended 30 June 2011.

In view of the major production and infrastructure development projects committed or being planned by the Company, the Board decided not to pay any dividend for the six months ended 30 June 2012 (dividend for the six months ended 30 June 2011: nil).

The board (the "**Board**") of directors (the "**Directors**") of Mongolian Mining Corporation (the "**Company**" or "**MMC**") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the "**Group**") for the six months ended 30 June 2012 together with the comparative figures for the corresponding period in 2011 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 June 2012 – unaudited

		Six months ended 30 June	
		2012	2011
	Note	***USD'000***	*USD'000*
Revenue	*5*	**233,033**	136,172
Cost of revenue	*6*	**170,880**	88,350
Gross profit		**62,153**	47,822
Other revenue		**1,425**	304
Other net income		**1,285**	63
Administrative expenses		**(19,068)**	(23,867)
Profit from operations		**45,795**	24,322
Finance income	*7(a)*	**14,956**	11,552
Finance costs	*7(a)*	**(20,707)**	(7,711)
Net finance (cost)/income	*7(a)*	**(5,751)**	3,841
Share of losses of associates		**(120)**	(201)
Profit before taxation	*7*	**39,924**	27,962
Income tax	*8*	**(8,946)**	(8,136)
Profit attributable to the equity shareholders of the Company for the period		**30,978**	19,826
Other comprehensive income for the period			
Exchange differences on translation of financial statements of subsidiaries		**19,485**	(2,406)
Total comprehensive income attributable to the equity shareholders of the Company for the period		**50,463**	17,420
Basic and diluted earnings per share	*9*	**0.84**	0.54

CONSOLIDATED BALANCE SHEET
at 30 June 2012 – unaudited

	Note	**At 30 June 2012** ***USD'000***	At 31 December 2011 *USD'000*
Non-current assets			
Property, plant and equipment, net	*10*	**532,813**	347,109
Construction in process	*11*	**142,077**	183,229
Lease prepayments		**108**	105
Intangible assets	*12*	**678,867**	681,352
Interest in associates		**4,197**	4,278
Other non-current assets		**13,589**	7,423
Deferred tax assets		**12,076**	9,698
Total non-current assets		**1,383,727**	1,233,194
Current assets			
Inventories		**91,880**	57,734
Trade and other receivables	*13*	**163,427**	109,322
Cash at bank and in hand		**451,171**	227,765
Total current assets		**706,478**	394,821
Current liabilities			
Short-term borrowings and current portion of long-term borrowings		**51,818**	333,568
Trade and other payables	*14*	**71,695**	118,680
Current taxation		**8,101**	17,508
Convertible bond		**82,982**	83,508
Obligations under finance leases		**274**	247
Total current liabilities		**214,870**	553,511
Net current assets/(liabilities)		**491,608**	(158,690)
Total assets less current liabilities		**1,875,335**	1,074,504
Non-current liabilities			
Interest-bearing borrowings, less current portion		**298,752**	144,661
Senior notes	*15*	**591,846**	–
Provisions		**11,838**	11,110
Deferred tax liabilities		**149,738**	149,656
Obligations under finance lease		**201**	213
Total non-current liabilities		**1,052,375**	305,640
NET ASSETS		**822,960**	768,864
CAPITAL AND RESERVES			
Share capital		**37,050**	37,050
Reserves		**785,910**	731,814
TOTAL EQUITY		**822,960**	768,864

NOTES TO UNAUDITED INTERIM FINANCIAL INFORMATION

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, transportation and sale of coal.

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

Pursuant to a share purchase agreement dated 31 May 2011, the Group acquired the entire issued share capital of Baruun Naran Limited ("**BN**").

2 BASIS OF PREPARATION

This interim financial information has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), including compliance with International Accounting Standard 34, "Interim financial reporting", ("**IAS 34**") issued by the International Accounting Standards Board ("**IASB**"). It was authorised for issue on 7 August 2012.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2011 annual financial statements, except for the new and revised International Financial Reporting Standards ("**IFRSs**") that are expected to be reflected in the 2012 annual financial statements (details of the new and revised IFRSs are set out in Note 3) and accounting policy on senior notes as follows:

At initial recognition the derivative component of the senior notes is measured at fair value and presented as part of derivative financial instruments. The initial carrying amount of the liability component of the senior notes is the residual value after separating the amount initially recognised as the derivative component. Transaction costs that relate to the issue of the senior notes are allocated to the liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in profit or loss. At each balance sheet date, the fair value of the derivative component is remeasured and the gain or loss on remeasurement to fair value is recognised immediately in profit or loss. The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method.

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

The interim financial information contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2011 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with IFRSs. IFRSs include all applicable individual International Financial Reporting Standards, International Accounting Standards (IASs) and related interpretations.

The interim financial information is unaudited, but has been reviewed by the Audit Committee of the Company. The interim financial information has also been reviewed by the Company's auditors, KPMG, in accordance with Hong Kong Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity", issued by the Hong Kong Institute of Certified Public Accountants. KPMG's independent review report to the Board of Directors will be included in the interim report to be sent to the shareholders of the Company.

The financial information relating to the financial year ended 31 December 2011 that is included in the interim financial information as being previously reported information does not constitute the Group's annual financial statements prepared under IFRSs for that financial year but is derived from those financial statements. The Group's annual financial statements for the year ended 31 December 2011 are available from the Company's registered office. The Company's auditors have expressed an unqualified opinion on those financial statements in their report dated 6 March 2012.

3 NEW AND REVISED IFRSs

The IASB has issued certain amendments to IFRSs that are first effective for the current accounting period of the Group and the Company. Of these, the amendments to IFRS 7, *Financial instruments: Disclosures – Transfers of financial assets*, is relevant to the Group's financial statements. The amendments to IFRS 7 require certain disclosures to be included in the annual financial statements in respect of all transferred financial assets that are not derecognised and for any continuing involvement in a transferred asset existing at the reporting date, irrespective of when the related transfer transaction occurred. However, an entity needs not provide the disclosures for the comparative period in the first year of adoption. The Group did not have any significant transfers of financial assets in previous periods or the current period which require disclosure in the current accounting period under the amendments.

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

4 SEGMENT REPORTING

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

5 REVENUE

The Group is principally engaged in the mining, processing, transportation and sale of coal. Revenue represents the sales value of goods sold to customers exclusive of value added or sales taxes and after deduction of any trade discounts and volume rebates. The amount of each significant category of revenue recognised during the six months ended 30 June 2012 is as follows:

	Six months ended 30 June	
	2012	2011
	USD'000	*USD'000*
Washed hard coking coal	**174,984**	126
Washed semi-soft coking coal	**2,658**	–
Middlings	**29,965**	–
Raw coking coal	**25,425**	135,979
Thermal coal	**1**	67
	233,033	136,172

During the six months ended 30 June 2012, the Group had three customers that individually exceeded 10% of the Group's turnover, being USD73,086,000, USD71,531,000 and USD27,107,000 respectively. During the six months ended 30 June 2011, the Group had three customers that individually exceeded 10% of the Group's turnover, being USD53,276,000, USD38,196,000 and USD21,266,000 respectively.

6 COST OF REVENUE

	Six months ended 30 June	
	2012	2011
	USD'000	*USD'000*
Mining costs	**51,848**	35,602
Processing costs	**21,123**	–
Transportation costs	**59,198**	35,874
Others#	**38,711**	16,874
	170,880	88,350

Others include USD18,652,000 (six months ended 30 June 2011: USD10,971,000) relating to the royalty tax on the coals sold.

7 PROFIT BEFORE TAXATION

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

(a) Net finance cost/(income):

	Six months ended 30 June	
	2012	2011
	USD'000	*USD'000*
Interest income	**(7,118)**	(11,552)
Net change in fair value of derivative component of convertible bond	**(2,429)**	–
Net change in fair value of derivative component of senior notes *(Note 15)*	**(1,380)**	–
Foreign exchange gain, net	**(4,029)**	–
Finance income	**(14,956)**	(11,552)
Interest on bank and other borrowings	**10,428**	5,868
Net change in fair value of derivative component of convertible bond	**–**	605
Interest on liability component of convertible bond	**3,178**	442
Interest on liability component of senior notes *(Note 15)*	**13,747**	–
Transaction costs	**2,261**	1,897
Unwinding interest on		
– Other long-term payables	**49**	–
– Accrued reclamation obligations	**280**	274
Less: Interest expense capitalised*	**(9,236)**	(5,591)
Net interest expense	**20,707**	3,495
Foreign exchange loss, net	**–**	4,216
Finance cost	**20,707**	7,711
Net finance cost/(income)	**5,751**	(3,841)

* Borrowing costs have been capitalised at a rate of 8.7% and 6.0% per annum for the six months ended 30 June 2012 and 2011, respectively.

(b) Staff costs:

	Six months ended 30 June	
	2012	2011
	USD'000	*USD'000*
Salaries, wages, bonuses and benefits	**14,730**	6,911
Retirement scheme contributions	**1,771**	882
Equity-settled share based payment expenses	**3,633**	–
	20,134	7,793

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 whereby the Group is required to make contributions to the Schemes at a rate of 11%-13% of the eligible employees' salaries. Contributions to the Schemes vest immediately.

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

(c) Other items:

	Six months ended 30 June	
	2012	2011
	USD'000	*USD'000*
Depreciation and amortisation	**21,438**	3,737
Operating lease charges: minimum lease payments	**2,358**	810
Costs of inventories	**170,880**	88,350

8 INCOME TAX

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

	Six months ended 30 June	
	2012	2011
	USD'000	*USD'000*
Current tax	**10,897**	13,456
Deferred tax	**(1,951)**	(5,320)
	8,946	8,136

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

	Six months ended 30 June	
	2012	2011
	USD'000	*USD'000*
Profit before income tax	**39,924**	27,962
Notional tax on profit before taxation	**7,929**	6,578
Tax effect of non-deductible expense *(Note (iii))*	**988**	1,171
Tax loss not recognised	**29**	387
Actual tax expenses	**8,946**	8,136

Notes:

(i) Pursuant to the income tax rules and regulations of Mongolia, the Group is liable to Mongolian Enterprise Income Tax at a rate of 10% of first Mongolian National Togrog ("**MNT**") 3 billion taxable income and 25% of the remaining taxable income for the six months ended 30 June 2012 and 2011.

(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, Luxembourg and Gibraltar profits tax as it has no assessable income arising in or derived from Hong Kong, Luxembourg and Gibraltar during the six months ended 30 June 2012 and 2011.

(iii) Non-deductible items mainly represent the non-deductible expenses and the unrealised exchange losses which are non-deductible pursuant to the income tax rules and regulations of Mongolia during the six months ended 30 June 2012 and 2011.

9 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2012 is based on the profit attributable to equity shareholders of the Company for the period of USD30,978,000 (six months ended 30 June 2011: USD19,826,000) and the 3,705,036,500 ordinary shares (six months ended 30 June 2011: 3,705,036,500 shares) in issue during the six months ended 30 June 2012.

(b) Diluted earnings per share

For the six months ended 30 June 2012 and 2011, the convertible bond is anti-dilutive and therefore not included in calculating diluted earnings per share. As a result, earnings per share and diluted earnings per share are the same.

10 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2012, the additions of property, plant and equipment of the Group, representing mainly coal handling and preparation plant module II and various mining structures, amounted to USD188,126,000 (six months ended 30 June 2011: USD195,134,000). Items of property, plant and equipment with net book value of USD204,000 were disposed of during the six months ended 30 June 2012 (six months ended 30 June 2011: USD137,000). As at 30 June 2012, certain of the Group's borrowings were secured by the Group's coal handling and preparation plant-modules I and II, power plant and water supply infrastructure assets-phase I with a net book value of USD179,192,000, USD52,140,000 and USD5,609,000, respectively (31 December 2011: USD99,483,000, USD54,627,000 and nil, respectively).

11 CONSTRUCTION IN PROGRESS

The construction in progress is mainly related to coal handling and preparation plant, railway and mining related machinery and equipment.

On 31 May 2012, the Group entered into a Build-Operate-Transfer Concession Agreement (the "**Agreement**") with the Government of Mongolia to build and operate the railway base infrastructure between Ukhaa Khudag coking coal mine and Gashuun Sukhait border check point of Mongolia (the "**UHG-GS Railway**"). Under the terms of the Agreement, the Group has been granted a right to construct and then operate the UHG-GS Railway for a period up to 19 years from the date of the commissioning of the railway base infrastructure. Upon expiration of the concession term, the Group shall transfer 51% of its shareholding in Energy Resources Rail LLC, an indirect wholly-owned subsidiary of the Company, which owns the railway base infrastructure, to the Government of Mongolia in accordance with the conditions set forth in the Agreement. As at 30 June 2012, the Group had commenced mobilisation and early works campaign on civil works front. Included in the Group's construction in progress as at 30 June 2012, there was a balance of USD26 million (31 December 2011: USD14 million) relating to the railway base infrastructure. As the pricing for tariff and to whom the railway base infrastructure is to be provided have not been determined, the application of IFRIC 12 has not been adopted at balance sheet date, and the Group's railway base infrastructure was grouped under construction in progress and stated at cost less any impairment loss as at 30 June 2012. The Group will reclassify the balance relating to the construction of the railway base infrastructure from construction in progress according to the terms when the pricing for tariff and to whom the railways is to be provided become available in the future.

12 INTANGIBLE ASSETS

Intangible assets represent the mining right arising from the acquisition of BN and the operating right of paved road.

13 TRADE AND OTHER RECEIVABLES

	At 30 June 2012 *USD'000*	At 31 December 2011 *USD'000*
Trade receivables *(Note (a))*	**29,303**	41,445
Other receivables *(Note (c))*	**138,269**	72,022
	167,572	113,467
Less: allowance for doubtful debts *(Note (b))*	**(4,145)**	(4,145)
	163,427	109,322

(a) Ageing analysis

Trade receivables (net of allowance for doubtful debts) are invoiced amounts due from the Group's customers which are due from the date of billing. As at 30 June 2012, all the trade receivables are aged within one year.

(b) Impairment of trade receivables

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

As at 30 June 2012, an allowance for doubtful debts amounting to USD4,145,000 (31 December 2011: USD4,145,000) was made on a collective basis in respect of the Group's trade receivable balances outstanding at the balance sheet date.

(c) Other receivables

	At 30 June 2012 USD'000	At 31 December 2011 USD'000
Amounts due from related parties *(Note (i))*	**96**	455
Prepayments and deposits *(Note (ii))*	**56,941**	17,695
VAT and other tax receivables *(Note (iii))*	**60,887**	43,697
Derivative financial instruments *(Note (iv))*	**6,300**	–
Others *(Note (v))*	**14,045**	10,175
	138,269	72,022

Notes:

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

(ii) At 30 June 2012, prepayments and deposits mainly represent the prepayments made to the Group's mining contractor and fuel supplier.

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

(iv) It represented the embedded derivative in the senior notes (see Note 15).

(v) At 30 June 2012, this item mainly represents the reimbursement receivables due from Erdenes MGL LLC of USD3.5 million and Government of Mongolia of USD4.5 million for the construction costs in relation to the expansion project of the border crossing in Mongolian side at Gashuun Sukhait, which are interest-free. Based on current available information the Group anticipates full recoverability of such amounts. The remaining other receivables mainly represent the interest income receivable of USD3.2 million for the bank deposits.

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

14 TRADE AND OTHER PAYABLES

	At 30 June 2012 USD'000	At 31 December 2011 USD'000
Trade payables *(Note (i))*	**11,684**	18,523
Receipts in advance *(Note (ii))*	**3,400**	9,160
Amounts due to related parties *(Note (iii))*	**3,728**	9,560
Payables for purchase of equipment	**20,089**	36,018
Security deposit on construction work	**5,277**	9,259
Interest payable	**15,841**	2,544
Other taxes payables	**2,628**	21,354
Provisions for contingent considerations	**1,500**	1,500
Others *(Note (iv))*	**7,548**	10,762
	71,695	118,680

Notes:

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

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

(iii) Amounts due to related parties represent payables for equipment, construction work and services provided, which are unsecured, interest-free and have no fixed terms of repayments.

(iv) 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.

15 SENIOR NOTES

	USD'000
At 1 January 2012	–
Issuance of senior notes	604,920
Transaction costs	(13,213)
Interest charged during the period *(Note 7(a))*	13,747
Interest payable	(13,608)
At 30 June 2012	591,846

On 29 March 2012, the Company issued guaranteed senior notes in the aggregate principal amount of USD600,000,000 and listed on the Singapore Exchange Securities Trading Limited. The senior notes bear interest at 8.875% per annum, payable semi-annually in arrears, and will be due in 2017.

The senior notes may be redeemed at the option of the Company upon giving not less than 30 days or no more than 60 days notice to the holders.

The Company has agreed, for the benefit of the holders of senior notes, to pledge all of the capital stock of Mongolian Coal Corporation Limited owned by the Company and to cause Mongolian Coal Corporation Limited to pledge all of the capital stock of Mongolian Coal Corporation S.a.r.l. owned by Mongolian Coal Corporation Limited.

The senior notes have been accounted for as a hybrid financial instrument containing both a derivative component and a liability component.

The derivative component was initially recognised at its fair value of USD4,920,000, and the attributable transaction cost of USD107,000 were charged to the profit or loss for the six months ended 30 June 2012. The fair value of the derivative component as at 30 June 2012 was USD6,300,000, which was presented as derivative financial instruments (see Note 13).

The liability component was initially recognised at amortised cost of USD591,707,000, after taking into account attributable transaction costs of USD13,213,000.

Fair value of the derivative component was valued by the directors with the reference to a valuation report issued by an independent business valuer based on the Binomial model.

16 DIVIDEND

The Board of the Company does not recommend declaration and payment of interim dividend in respect of the six months ended 30 June 2012 (six months ended 30 June 2011: nil).

17 POST FINANCIAL PERIOD EVENTS

There have been no significant events affecting the Company and its subsidiaries which have occurred since the end of the financial period ended 30 June 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

The most significant milestone achieved in the Company's long-term development and sustainable business growth objective during the period under review was the commencement of the construction of Ukhaa Khudag – Gashuun Sukhait railway base infrastructure ("**UHG-GS Railway**").

In May 2012, the Group has entered into a Build-Operate-Transfer ("**BOT**") Concession Agreement with Government of Mongolia ("**GoM**") to build and operate the railway base infrastructure between Ukhaa Khudag coking coal mine and Gashuun Sukhait border check point of Mongolia. The UHG-GS Railway is expected to increase efficiency and reliability of the Group's coal transportation operations while bringing further reduction in cost of transportation to the Group. Moreover, the Group believes that the railway will improve safety in coal transportation operations and significantly reduce impact on the environment.

The Group expects that the UHG-GS railway construction will be completed in the second half of 2014 and is anticipated to be fully operational in 2015. In the meantime, UHG-GS paved road will continue to serve as the Group's primary transportation infrastructure and provide the Group with a reliable coal transportation link to its customers located in China.

In March 2012, the Group successfully issued USD600.0 million Guaranteed Senior Notes, rated B1/B+, due in 2017 ("**Senior Notes**") bearing an interest at 8.875%, which was the largest ever bond out of Mongolia and the first 144A issuer from Mongolia. At the same time, Moody's Investors Service, Inc. ("**Moody's**") has assigned a B1 corporate family rating and Standard and Poor's Ratings Services ("**S&P**") its 'B+' long-term corporate credit rating to the Group with the stable outlook, respectively. This was an important milestone in the development of the Group's capital structure and the proceeds from the Senior Notes are expected to be allocated mainly to the financing of the Group's UHG-GS Railway construction project.

The Group is proud to emphasize that MMC continued with solidifying its position as the leading coking coal miner in Mongolia by the successful implementation of development plans in line with the Group's strategy to expand its coal mining, processing, transportation and logistics operations and to deliver to the market washed coal products under its own brand name.

The Group's coal mining operations have continued to ramp up as scheduled. During the period under review, the Group achieved a run-of-mine ("**ROM**") coal production at the Ukhaa Khudag ("**UHG**") mine of approximately 3.7 million tonnes, an increase of 48.0% over the 2.5 million tonnes mined there during the corresponding period in 2011.

Meanwhile, in line with the Group's long-term vision to diversify its business portfolio by transforming from single asset based company to multiple assets operations, in February 2012 it has successfully launched the commercial coal mining operations at the BN mine after official permits were received from the relevant Mongolian governmental authorities.

During the period under review, the Group achieved ROM coal production at its BN mine of approximately 0.4 million tonnes (first half of 2011: nil).

The Group believes that the close proximity of UHG and BN mines provides unique opportunity for synergic development by sharing coal handling and processing facilities and increasing the utilization of coal transportation and logistics infrastructure, thus reducing requirements for development capital expenditure. In addition, operational synergies such as joint functional and operational management and marketing platform will be also achieved.

As a part of its development strategy, the Group launched coal handling and preparation plant ("**CHPP**") operations which enables the Group to produce and sell washed coal products under the MMC's brand name, reduce logistics costs, expand its end-user customer base, and boost its competitiveness in the international market.

To match its coal production expansion, the Group has also been increasing its coal handling and processing capacity. After commissioning the second phase of the CHPP by relevant Mongolian governmental authorities in February 2012, the Group's current coal handling and processing capacity has reached 10 million tonnes on an annual basis.

The Group will continue the planned expansion of its coal processing capacity by completing the third phase of the CHPP. The third phase is slated for completion by end of 2012, thus expanding the Group's total annual processing capacity to 15 million tonnes.

During the period under review, the Group's CHPP processed approximately 3.0 million tonnes of total ROM coal (first half of 2011: 0.2 million tonnes) delivered from UHG and BN mines and produced approximately 2.1 million tonnes of total washed coal products as a combination of washed hard coking coal, washed semi-soft coking coal and middlings.

For the six months ended 30 June 2012, the Group sold approximately 2.4 million tonnes of coal, as a combination of raw coking coal, washed hard coking coal, washed semi-soft coking coal and middlings, representing an increase of 71.4% over the 1.4 million tonnes of coal sold during the corresponding period in 2011.

For the six months ended 30 June 2012, the Group sold approximately 1.3 million tonnes of washed hard coking coal, 0.03 million tonnes of semi-soft coking coal and 0.3 million tonnes of raw coking coal. The average selling price ("**ASP**") for the coking coal products was approximately USD128.5 per tonne, thus representing 34.4% increase over the corresponding period in 2011 (first half of 2011: USD95.6 per tonne).

In the first half of 2012, the Group sold approximately 0.8 million tonnes of its middlings at the ASP of approximately USD37.6 per tonne.

While remaining focused at Chinese market as a primary destination for its coal products and expanding its relations with its Chinese customers, during the period under review as a part of long-term objective to diversify customer base, the Group has successfully delivered initial bulk shipments of approximately 53.3 thousand tonnes of its washed premium hard coking coal via Russian Far East port Nakhodka to the customers at seaborne market, namely Sumitomo Corporation in Japan, Mesco Steel in India and China Steel in Taiwan.

During the period under review, according to the data issued by the National Statistical Office of Mongolia, the Group exported approximately 2.4 million tonnes of coal, or around 23% of Mongolia's total coal exports (first half of 2011: 18%).

For the six months ended 30 June 2012, the Group grew its revenue by 71.1% to approximately USD233.0 million from USD136.2 million for the same period in the previous year. The increase was primarily attributable to the increase of total sales volume and higher proportion of washed coal products sales compared to raw coal sales.

During the period under review, the Group grew its EBITDA by 139.6% to approximately USD67.2 million from USD28.1 million for the same period in the previous year. The increase was primarily attributable to the increase of total sales volume and higher ASP achieved for coal sold.

The profit attributable to equity shareholders of the Company for the six months ended 30 June 2012 was approximately USD31.0 million, representing a change of USD11.2 million, or 56.2% as compared to USD19.8 million for the six months ended 30 June 2011.

Operating environment

Dynamics of Mongolian coal exports and Chinese coal imports

In the first half of 2012, according to the data issued by the National Statistical Office of Mongolia, Mongolian coal exports reached approximately 10.3 million tonnes, representing a 33.8% increase over the 7.7 million tonnes in the same period last year. The vast majority of Mongolia's coal exports went to China.

During the period under review, a number of factors affected coal supply and demand dynamics at Chinese and international markets. The Chinese government tightened monetary policy to curb inflation and rising property prices has shown effect, resulting in overall slower economic growth. The situation was compounded by the slowing global economy and financial crisis in Europe, further hampering Chinese steel exports. As the growth of major steel consumption industry sectors, such as construction, ship building and machinery manufacturing slowed down, the Chinese steel industry continued to face difficulties to maintain its production output, products pricing and profitability levels. Additionally, Australian mining companies are returning to post-flood, full production capacity and coking coal supply overtakes demand due to a stagnating global economy. Also falling demand in North America drove increasing amount of coking coal supply from this region to Asian markets, leading to a further decline in seaborne coking coal prices. This excessive seaborne coking coal supply drove seaborne prices to the levels lower than China's domestic prices.

The weaker demand from coke and steel makers and increasing supply of coal from seaborne market resulted in a continuous decrease of Chinese domestic coking coal prices in the first half of 2012 by approximately 5-10% compared to the same period of previous year. This trend is expected to continue in the second half of 2012, although the recent steps taken by the Chinese government to ease monetary policy are expected to stabilize demand and maintain country's GDP growth at targeted 7.5% in 2012.

During the period under review, according to public sources, China imported approximately 139.9 million tonnes of coal. The country continued to be the world's second-largest coking coal importer with approximately 27.6 million tonnes of coking coal imported in the first half of 2012 representing 43.8% increase compared to the corresponding period in previous year (first half of 2011: 19.2 million tonnes).

Moreover, as detailed in the table below, Mongolia preserved its position as the largest supplier of coking coal to China, with its exports accounting for approximately 33.7% of China's total coking coal imports (first half of 2011: 41.2%).

China's coking coal import volumes by country of origin (in million tonnes):
(Source: China Coal Resource)

	For the six months ended 30 June		
	2012	2011	Change %
Total	**27.6**	19.2	43.8
Mongolia	**9.3**	7.9	17.7
Australia	**6.7**	4.2	59.5
Canada	**3.5**	1.5	133.3
United States	**3**	2.7	11.1
Russia	**2.5**	1.4	78.6

With China's coal demand expected to remain stable and maintain this trend in the second half of 2012, and with the throughput capacity expansions completed at major coal-exporting border-crossing points between Mongolia and China at Gashuun Sukhait-Ganqimaodu and Shiveekhuren-Ceke, it is expected that this will facilitate the continuing increase in Mongolian coal export volumes to China.

Legal framework

The approval of Law on Regulation of Foreign Investment in Business Entities which Operate in Sectors of Strategic Importance and amendments made in Environmental Laws were major regulatory changes passed and implemented by Mongolian Parliament during the period under review.

On 17 May 2012, the Parliament of Mongolia passed the Law on Regulation of Foreign Investment in Business Entities which Operate in Sectors of Strategic Importance, which came into effect on the same date. Pursuant to this law, the sectors of strategic importance include the minerals, banking and finance, media and communication sectors.

Pursuant to Article 6.1, the following transactions involving privately-owned foreign investors will require GoM's approval, if as a result of transaction foreign entity will acquire 33% or more of the shares in a business entity operating in sector of strategic importance.

Also GoM's approval will be required regardless of the percentage of equity interest, if as a result of a proposed transaction and acquisition of an interest in a business entity operating in sector of strategic importance:

– a foreign investor has the right to solely appoint the executive management or a majority of the board and veto decisions of the executive management or board of directors; or

– determine or implement management decisions and/or operations;

– may potentially give rise to a monopoly (to either the seller or buyer) over mineral products on international or domestic commodity markets;

– may directly or indirectly influence the market or the price of mineral products exported from Mongolia.

Any acquisition or operations by a state-owned foreign investor or by an international organization will require the approval of the GoM.

Moreover, as defined by Article 3.7, if foreign investments in such business entities exceed 49% and the transaction value exceeds the threshold of MNT100 billion (equivalent to approximately USD75 million at current exchange rate), Parliament approval for such investment by any foreign entity is required.

The exact details of the approval procedure will be determined by the GoM. However, the law defines that a foreign investor wishing to enter into a transaction to which the law applies must first make a request for approval to the relevant government agency. The agency must submit its proposal to the GoM on whether to grant approval within 45 days of receipt, and in turn the GoM has 45 days to make a final decision on whether to approve the transaction. Within 5 days after GoM's decision is made, the agency must inform the applicant about the final outcome.

On 17 May 2012, the Parliament of Mongolia also amended a number of environmental laws, such as the Law on Environmental Resource Utilization Fee and the Law on Environmental Impact Valuation, whose amendments came into effect on 22 June 2012.

In accordance with the changes, the water utilization cost is expected to increase from the second half of 2012. Pursuant to the amendment, the water utilization fee will be calculated based on the eco-economic value of the water. For underground water utilized by mining and mineral resource processing entities, the exact fee percentage will range from 20-60% of the eco-economic value of the water.

However, any such water reused for industrial operations will be made exempt from the water utilization fee.

Political Landscape

Since political changes in Mongolia and country's transition to democracy and free market economy in early 90's and first multi-party parliamentary elections held in 1990, on 28 June 2012 Mongolians voted in the seventh parliamentary election, which was the main political event occurred in the country during the period under review.

More than 550 candidates and 15 political parties and coalitions competed in this nationwide elections for 76 seats of the State Great Khural (Ulsyn Ikh Khural), Mongolian Parliament. According to the Election Law, 48 mandates in 26 election districts were filled according to the most popular votes for individual candidates as a party/coalition nominees or independents. The remaining 28 seats, meanwhile, were filled based on the party/coalition preference voting totals nationwide, and with 5% threshold implied to enter Parliament.

As it was declared by Election General Committee, the Democratic Party won 31 seats, the Mongolian People's Party won 25 and the Justice Coalition won 11, and the Civil Will-Green Party won two. Three independent candidates also succeeded in getting elected. Of the four remaining seats, reelections are expected for two mandates due to the failure of the candidates to achieve the more than 28% popular-vote threshold as stipulated by the law. Meanwhile, the results of the final two seats are presently under dispute and awaiting court decisions.

Thus, out of the 72 successfully-elected candidates, 71 took their oaths of office in July 2012 and officially began their terms in newly elected Parliament.

To date, the relevant political parties were in the midst of discussions and negotiations with regard to the forming a coalition able to secure the majority in the Parliament, thus nominate Prime Minister, who will present his/her proposal to form the Cabinet for approval by Parliament.

Occupational Health and Safety

In the first half of 2012, the Group has continued with implementation of its policy to recognize the safety of personnel and equipment as its highest priority.

During the period under review, no fatalities were reported within the Group's coal mining, processing and transportation operations with total 3,196,643 man hours recorded.

The Lost Time Injury Frequency Rate ("**LTIFR**"), an injury frequency rate expressed as the number of injuries per million hours worked was 1.0, meeting the Group's objective set to be lower than 1.5 for the whole year of 2012. In comparison, Queensland Government publicly reported that the average LTIFR at surface coal mining operations in Queensland, Australia was 2.7 for the period from 1 July 2010 to 30 June 2011.

As of 30 June 2012, the Group had conducted a total of 18,956 man hours of safety training involving Group's personnel, contractors and visitors.

Coal Resources, Reserves and Exploration Activities

UHG deposit

Covering an area of approximately 2,960 hectares, according to JORC-compliant resources and reserves estimation reports prepared by Norwest, the Group's UHG licensed area, as of 31 May 2010, had approximately 581 million tonnes and 286 million tonnes of JORC-compliant measured, indicated and inferred coal resources and proven and probable reserves, respectively.

Over the last four years (2009-2012), the Group's geological team has conducted extensive exploration activities at UHG deposit with the following objectives in mind:

– To define oxidation limits for mine-planning purposes by determining the locations of any oxidized coal to be mined as thermal coal;

– To undertake close-spaced (50mx50m) open-hole drilling and geophysical logging prior to mining so as to determine localized geological structures for future short and mid-term mine planning purpose;

– To undertake close-spaced (100mx100m) core drilling to produce coal samples for testing and analysis for key quality parameters such as but not limited to moisture, ash, volatile matters, sulphur and phosphorous content, calorific value, caking index (G), crucible swelling number (CSN), and Sapozhnikov plastometer indexes (X and Y);

– To prove the general initial observation that the coal has actual lower in-situ ash content than was predicted by the original geological model;

– To produce a bulk sample of the Seam 0 plies so as to enable coking coal sections to be identified and to explore blending possibilities that may produce hard coking coal products; and

– To complete the 2D seismic program to identify the continuity of coal seams and potential fault areas impacting the mining methodology and development schedules.

Approximately 166,385 meters of drilling was carried out during this period of exploration with 1,435 boreholes completed and geophysical logged. The laboratory test work was also carried out on a total 32,556 analytical coal samples collected.

The Group collaborated with Velseis Processing to interpret data collected from 71 km of high resolution 2D seismic in-field measurement program, which was carried out by Polaris Seismic International and used to identify coal seams continuity and structure, as well as to obtain new, valuable information on the potential of the deposit's underground resources.

Finally, a large-diameter, bulk-sample drilling program has been completed on the Seam 0 plies, and the samples gathered have been analyzed by ALS Laboratories in Mongolia for washability and metallurgical testing.

All this exploration data was used to update the geological and coal quality model, and hence the JORC-compliant resource estimates as of 30 June 2012. Independent peer audit was conducted by Mr. Todd Sercombe from GasCoal Pty Ltd which confirmed the compliance of the Group's work carried out to update the UHG geological model, thus Competent Person JORC-compliant estimates for coal resources, estimated on an air-dry basis.

The updated UHG coal resources by depth and category (in million tonnes):

Total Coal Resources		**Resources Category**			
Depth Limits	**Measured**	**Indicated**	**Inferred**	**Total (M+I)**	**Total (M+I+I)**
From -100m to subcrop	114.3	55.3	26.2	169.6	195.8
From -200m to -100m	93.5	55.2	25.8	148.7	174.5
From -300m to -200m	80.1	51.0	16.8	131.1	147.9
From -400m to -300m	49.7	33.2	11.4	82.9	94.3
Below -400m	41.8	34.3	12.2	76.1	88.3
Sub-Total above -300m	287.9	161.5	68.8	449.4	518.6
Sub-Total below -300m	91.5	67.5	23.6	159.0	182.6
Total	**379.4**	**229.0**	**92.4**	**608.4**	**700.8**

Based on air-dry raw coal qualities, seam groups were defined as a coal with moderate-high coking potential or coal with low coking potential. For above 300m to base of weathering it was estimated 373.3 Mt of coal with moderate-high coking potential, 196.2 million tonnes in measured category, 130.6 million tonnes in indicated category, and 46.5 million tonnes in inferred category respectively. In addition, 145.1 million tonnes of coal resources were determined as a coal with low coking potential. 91.8 million tonnes in measured category, 31.0 million tonnes in indicated category, and 22.3 million tonnes in inferred category respectively.

For coal resources located below 300m depth limit, it was estimated 105.3 million tonnes of coal with moderate-high coking potential, 56.8 million tonnes in measured category, 38.4 million tonnes in indicated category, and 10.1 million tonnes in inferred category respectively. In addition, 77.1 million tonnes of coal resources were determined as a coal with low coking potential, 34.6 million tonnes in measured category, 29.0 million tonnes in indicated category, and 13.5 million tonnes in inferred category respectively.

This geological model will serve as a base to update the Group's long-term mining schedule at UHG mine, and hence the preparation of updated JORC-compliant reserve estimation with expected completion in early 2013 *(Note)*.

Note: Technical information in UHG coal resources estimation report has been compiled by Mr Gary Ballantine, Executive General Manager for Exploration and Geology, Mongolian Mining Corporation. Mr Ballantine is a member of the Australasian Institute of Mining and Metallurgy (Member #109105) and has over 22 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 Minerals Resources and Reserves (JORC) 2004. Mr Ballantine consents to the inclusion in the release of the matters based on this information in the form and context in which it appears. The estimates of the Coal Resources presented in this report are considered to be a true reflection of the UHG coal resources as at 30 June 2012 and have been carried out in accordance with the principles and guidelines of the Australian Code for Reporting of Coal Resources and Coal Reserves published in September 2004 (JORC Code).

BN deposit

The Group's mining license for the BN mine covers an area of approximately 4,482 hectares. McElroy Bryan Geological Services Pty Ltd prepared the geological model for the BN mine in February 2010 in accordance with JORC standards, identifying approximately 282.2 million tonnes of JORC-compliant measured, indicated and inferred coal resources, based on a density calculated for a 6% moisture content. Based on the coal seams determined by SRK Consulting to be either coking or thermal coal in the reserve estimate, the split between coking and thermal coal resources is approximately 152.9 million tonnes as a coking coal and 129.3 million tonnes as thermal coal. In March 2011, SRK Consulting completed a reserve estimation report for the BN mine, identifying approximately 185 million tonnes of open-pit mineable, JORC-compliant proven and probable coal reserves.

BN coal resources by depth and category (in million tonnes):

Total Coal Resources	**Resources Category**				
Depth Limits	**Measured**	**Indicated**	**Inferred**	**Total (M+I)**	**Total (M+I+I)**
From -100m to subcrop	45.5	9.0	–	54.5	54.5
From -200m to -100m	65.5	15.1	–	80.6	80.6
From -300m to -200m	57.9	19.0	–	76.9	76.9
From -400m to -300m	40.2	29.5	0.5	69.7	70.2
Below -400m	–	–	–	–	–
Sub-Total above -300m	168.9	43.1	–	212.0	212.0
Sub-Total below -300m	40.2	29.5	0.5	69.7	70.2
Total	**209.1**	**72.6**	**0.5**	**281.7**	**282.2**

The Group anticipates that this reserves estimate may change, as it began its own analyses for the future development of the BN mine and have engaged Minarco to conduct technical studies and prepare a life-of-mine ("**LOM**") mining study and JORC-compliant reserves re-estimation with expected completion in the second half of 2012.

Mining and processing operations

ROM coal mining operations

During the period under review, the Group continued with its coal mining operations at UHG mine and BN mine and started its coal mining operations in February 2012 as an official mining permission from relevant Mongolian government authorities was obtained on 30 January 2012.

In the first half of 2012, the Group's combined ROM coal production at the UHG and BN mines reached approximately 4.1 million tonnes, around 64.0% more than the 2.5 million tonnes mined during the same period of 2011. Below are historical semi-annual ROM coal production tonnages (in '000 tonnes):

Period	H1 2009	H2 2009	H1 2010	H2 2010	H1 2011	H2 2011	H1 2012
UHG ROM coal	380	1,461	1,490	2,442	2,504	4,574	3,698
BN ROM coal	–	–	–	–	–	–	436
Total ROM coal	**380**	**1,461**	**1,490**	**2,442**	**2,504**	**4,574**	**4,134**

During the period under review, the strip ratio at the UHG mine was approximately 6.44 bank cubic meter ("**BCM**")/ROMt and at BN mine 5.27 BCM/ROMt, representing the overall strip ratio of 6.32 BCM/ROMt (first half of 2011: 6.27 BCM/ROMt). Similar to previous years, mining operation in the first half of the year was focused on waste pre-stripping to uncover coal, and it is expected to be lower on a full year basis. The management expectation for the full year strip ratio in 2012 is in the range of 5.10-5.20 BCM/ROMt.

Based on the year-to-date performance, the management is expecting the operational adjustment of the Group's ROM coal production at UHG mine to its CHPP in-feed ROM coal consumption while keeping targeted level of approximately four to six weeks in-feed ROM coal inventory at stockpile. Therefore, it is projected that the total ROM coal output at UHG mine will be in the range of the 9.0-10.0 million tonnes for the full year of 2012.

With the expected ROM coal production full year target of 1.0 million tonnes at the BN mine in 2012, management is confident of achieving a total ROM coal production in range of 10.0-11.00 million tonnes for the full year of 2012.

Coal handling and processing operations

During the period under review, the Group's CHPP processed approximately 3.0 million tonnes of total ROM coal (first half of 2011: 0.2 million tonnes) delivered from UHG and BN mines and produced approximately 2.1 million tonnes of total washed coal products as a combination of washed hard coking coal, washed semi-soft coking coal and middlings.

The CHPP production tonnages for in-feed ROM coal primary and secondary products in the first half of 2012 are tabulated below:

	In-feed ROM coal ('000 tonnes)	Primary product ('000 tonnes)	Secondary product ('000 tonnes)	Total product ('000 tonnes)	Primary yield (%)	Secondary yield (%)	Total yield (%)
UHG	2,719	1,347	542	1,889	50%	20%	70%
BN	309	198	17	215	64%	6%	70%
Total	**3,028**	**1,545**	**559**	**2,104**	**51%**	**19%**	**70%**

Following the commissioning of the second wash plant module by relevant Mongolian governmental authorities in February 2012, the Group's current coal handling and processing capacity has now reached 10 million tonnes on an annual basis.

The Group continued with the planned expansion of its coal processing capacity by building and installation work for the third phase of the CHPP. The third module is slated for completion by end of 2012, thus expanding the Group's total processing annual capacity to 15.0 million tonnes.

The total estimated cost for entire CHPP project is approximately USD343.8 million. The incurred cost related to this project as of 30 June 2012 was USD275.6 million.

Power and water supply

The Group's on-site coal-fired 3x6 megawatt ("**MW**") power plant located at UHG site ("**UHG Power Plant**") was utilized as a main source of power for its CHPP operations and other facilities at the mine site. It also provides power to local community in the surrounding area. At the same time, 4x2MW diesel generators are acting as a backup and supportive power generation source.

Moreover, the state-funded construction of 220kV power transmission line from the central power grid to the South Gobi area is progressing and according to information from government sources, this line is expected to reach Tavan Tolgoi area by the end of this year. Thus, it is expected that this line will serve as an additional power backup source by establishing the connection link with the Group's main substation at UHG.

As of 30 June 2012, the Group's total power generation amounted to approximately 30.6 million kilowatt-hours ("**kWh**"), of which approximately 85% was generated by UHG Power Plant.

To support the operations of the Group's CHPP and its production capacity expansion, the Group completed construction of and commissioned the initial stage of a water supply facility in 2011. The facility is fully operational, capable of supplying 117 liters per second.

The Group started construction work in May 2012 to expand this capacity by approximately 112 liters per second, based on the findings of its hydrogeological exploration work and technical study of the Naimdain Khundii area, located approximately 50 km north of the UHG mine. This construction work is scheduled to be completed by the end of 2012.

The total estimated cost for this expansion project, including the hydrogeological exploration cost, is approximately USD43.8 million. The incurred cost related to this project as of 30 June 2012 was USD31.1 million.

As of 30 June 2012, the Group's total water extracted was approximately 1.2 million cubic meters with 1.0 million cubic meters of water being consumed and the balance stored in the Group's water storage facilities at UHG site.

Transportation and Logistics

In the first half of 2012, the Group continued its truck-and-road model to transport coal products from the UHG mine to the Ganqimaodu ("**GM**") border port in China via its coal handling facility in Tsagaan Khad ("**TKH**"), Mongolia. At the same time, during the period under review, the Group continued with its efforts to conduct trial export shipments to various seaborne market destinations, including Japan, Taiwan and India.

For the six months ended 30 June 2012, the Group has increased its coal transportation volume of coal exported to China by 64.3% to 2.3 million tonnes (first half of 2011: 1.4 million tonnes).

With approximately 400 trucks under the Group's full ownership, of which 300 are double trailers, the Group has successfully achieved its objective to increase its control over the coal transport and logistics chain and reduce its dependency on third-party contractors. Thus, during the period under review, the Group's own transportation fleet handled more than 50% of all its coal movements from UHG to TKH, which represents almost 5-fold increase on year-on-year basis.

In the first half of 2012, the paved road between the UHG mine and Mongolia's Gashuun Sukhait ("**GS**") border checkpoint started to serve as the Group's primary infrastructure for transporting its products, enabling the Group to achieve significant transportation reliability and efficiency improvements.

Meanwhile, the Group also opened the road for the third-party movement of coal and other freight under a commercial toll fee arrangement, thus generating net income of approximately USD1.8 million.

On 12 January 2012, in order to alleviate bottlenecks at the border crossing and support its ramp-up plan, the Group, jointly with Erdenes MGL, successfully commissioned the expansion of the GS border-crossing checkpoint on the Mongolian side. The expansion brought a significant increase in GS's annual border-crossing capacity from 10-12 million tonnes per annum ("**Mtpa**") to 25-30 Mtpa. This translates into a peak capability of this border-crossing point to handle up to 1,200 trucks per day in each direction.

In the first half of 2012, according to Mongolian Customs data, the GS border-crossing checkpoint handled approximately 5.9 million tonnes of coal exports to China, representing a year-on-year increase of 47.5% over the approximately 4.0 million tonnes in the same period of last year.

UHG-GS Railway project

Government Policy

In June 2010, the Parliament of Mongolia passed a resolution approving a formal policy document on railway development in Mongolia. According to this policy, in the next decade Mongolia plans to expand its existing railway network by staged development of various railway projects, including the Group's UHG-GS Railway.

The President of Mongolia highlighted the importance of the urgent development of railway infrastructure in South Gobi region in an official letter issued on 15 February 2012 to the GoM concerning the infrastructure and other development aspects in the Gobi region, including the need for commencement of construction of planned railway projects in 2012.

The GoM made series of decisions throughout the second quarter of 2012 to enter the negotiations on the concession terms with stakeholders involved in the proposed railway development projects in South Gobi region.

Concession Agreement

On 31 May 2012, the Group entered into and executed the Build-Operate-Transfer ("**BOT**") Concession Agreement with GoM, represented by the Ministry of Road, Transportation, Construction, and Urban Development, the State Property Committee, and the Railway Authority of Mongolia.

The BOT Concession Agreement allows the Group to build and operate the railway base infrastructure between UHG coking coal mine and GS border check point of Mongolia for the period of 19 years of the concession term, with key terms including:

- the Group has been granted a right to construct the UHG-GS Railway;
- the Group has been granted a right to operate the UHG-GS Railway for a period up to 19 years from the date of the commissioning of the railway base infrastructure;
- the UHG-GS Railway will be built using a 1,520 millimeter gauge;
- Upon expiration of the concession term, Group shall transfer 51% of its shareholding in Energy Resources Rail LLC ("**ER Rail**"), an indirect wholly-owned subsidiary of the Company, to the GoM in accordance with the conditions set forth in the Concession Agreement; and
- Upon transfer 51% of its shareholding in ER Rail to the GoM, the Group has an option to swap certain portion of the remaining shares in ER Rail for 10 percent of shares in a state owned company, which will own an integrated railway base infrastructure network between Sainshand – Tavantolgoi – Ukhaa Khudag – Gashuun Sukhait.

The other main terms of the Concession Agreement include:

- the Group has preemptive right to use the capacity, in particular up to 20 Mtpa of available capacity of the UHG-GS Railway;
- an open access by third party will be available for the use of any excess capacity on UHG-GS railway;

– the Group has the right to set and charge tariff under commercial principle on non-discriminatory basis during the concession period; and

– the provision with regard to direct agreement, step in rights and other financing related terms by direct lenders to the project and other regulation on termination compensation.

The Group has secured the land possession rights for the land strip underlying its planned UHG-GS Railway of 6,740 hectares for 60 years commencing 7 August, 2009. Under relevant laws and regulations, the Group is obligated to pay land fees on a quarterly basis. The land fee associated with the land possession rights for the Group's UHG-GS Railway is MNT27.2 million (or approximately USD20,330) per year.

Design and Construction

The UHG-GS Railway will be a 25-tonne axle load single line, diesel electric, heavy haul freight railway of approximately 240 km in length with estimated capacity of up to 30 Mtpa and will be used to transport coal into China and ultimately to other international seaborne markets through GS.

In March 2009, the Group completed a feasibility study and this study estimated the total cost of constructing the Group's UHG-GS railway at USD698.8 million, based on 15 Mtpa initial capacity and 1,435mm gauge design. The cost estimation is expected to change as the Group commenced works to update its feasibility study and construction cost estimations for the Group's UHG-GS Railway and revise design to convert to 1,520mm gauge and 30 Mtpa throughput capacity. This work is expected to be fully completed in the third quarter of 2012.

The formal groundbreaking ceremony to commence the construction of the UHG-GS Railway was held on 6 June 2012 at UHG mine site.

As of 30 June 2012, the Group had commenced mobilization and early works campaign on civil works front in order to clear out local and central government permits and approvals, prepare site and setup, explore and open up stone material quarries and water sources, deploy camps and key equipment on site. In June 2012, the Group initiated competitive bidding process to select engineering, procurement and construction ("**EPC**") contractor for the construction of UHG-GS Railway. The final outcome of bidding process is expected in the third quarter of 2012.

The Group expects that the construction of UHG-GS Railway will be completed in the second half of 2014 and is anticipated to be fully operational in 2015. Once completed, the UHG-GS Railway is envisioned to serve as the Group's primary transportation link to China. The UHG-GS Railway is expected to increase efficiency and reliability of its coal transportation operations while bringing further reduction in cost of transportation to the Group. Moreover, the Group believes that the railway will improve safety in coal transportation operations and significantly reduce impact on the environment.

Marketing and Sales

For the six months ended 30 June 2012, the Group sold approximately 2.4 million tonnes of coal, representing an increase of 71.4% over the 1.4 million tonnes of coal sold during the corresponding period in 2011.

During the period under review, the Group sold approximately 1.3 million tonnes of washed hard coking coal, 0.03 million tonnes of semi-soft coking coal and 0.3 million tonnes of raw coking coal. The ASP for the Group's coking coal products was approximately USD128.5 per tonne, thus representing approximately 34.4% increase over the corresponding period in 2011 (first half of 2011: USD95.6 per tonne). The Group continued to strengthen its relations with end-user customers based in China. In addition, the Group has successfully launched pilot shipments to seaborne market customers. In January 2012, the Group exported approximately 19.1 thousand tonnes of premium washed hard coking coal to the Japanese market in partnership with Sumitomo Corporation via the Russian Far Eastern port of Nakhodka. Subsequently, in March 2012, the Group delivered approximately 16.4 thousand tonnes of premium washed hard coking coal under free-on-board ("**FOB**") Nakhodka terms to Mesco Steel, thus introduced its premium quality coking coal to India, the market that is becoming one of the leading coking coal importing countries recently. In May 2012, a third shipment from Nakhodka delivered approximately 17.7 thousand tonnes of premium washed hard coking coal to China Steel Corporation, helping to raise the potential demand for Mongolian premium coking coal among Taiwan's leading steel mills. Furthermore, the Group has plans to investigate the possibility to deliver its coking coal products to its end-user customers on the seaborne market via Chinese ports located at Bohai rim.

In the first half of 2012, the Group also started to sell its BN washed semi-soft coking coal to China. A total of approximately 31.7 thousand tonnes of this product was shipped to the Inner Mongolia Qinhua Group, Pusheng International Trade (Holdings) Company and China Panjin Oil Field Taicheng Industrial.

During the period under review, the significant break-through was achieved in terms of marketing the Group's middlings as a high calorific value thermal coal. Thus, the Group entered into a long term cooperation agreement for its middlings with China Datang Overseas Investment Co. Ltd., one of China's largest energy producers, and a sales and purchase agreement with China Panjin Oil Field Taicheng Industrial, another sizeable Chinese end-user of thermal coal. Furthermore, the Company started selling its middlings locally as a feed for boiler to Oyu Tolgoi, one of the biggest mining projects in Mongolia.

In the first half of 2012, the Group sold approximately 0.8 million tonnes of its middlings at the ASP of approximately USD37.6 per tonne.

FINANCIAL REVIEW

Revenue

The Group's revenue for the six months ended 30 June 2012 reached USD233.0 million, representing an increase of 71.1%, as compared with USD136.2 million for the same period of 2011. The increase was driven by quantitative factors such as an increase in sales volume and qualitative factors such as an increasing proportion of washed coking coal in sold coal product type.

During the period under review, the Group has sold approximately 97.8% of total export sales volume to its China-based customers and 2.2% to seaborne market customers. For the six months ended 30 June 2012, the Group derived approximately 94.6% and 5.4% of total coal export sales revenue from its Chinese customers and seaborne market customers, respectively.

For the six months ended 30 June 2012, the Group sold approximately 1.3 million tonnes of washed hard coking coal, 0.03 million tonnes of semi-soft coking coal and 0.3 million tonnes of raw coking coal. The ASP for the Group's coking coal products was approximately USD128.5 per tonne, thus representing approximately 34.4% increase over the corresponding period in 2011 (first half of 2011: USD95.6 per tonne).

In the first half of 2012, the Group delivered trial shipments of washed hard coking coal to seaborne market customers under FOB Nakhodka terms, and achieved ASP USD236.5 per tonne, which is approximately 76.0% higher compared to ASP USD134.4 per tonne achieved for washed hard coking coal delivered to China-based customers. The trial shipments were important exercise to test logistic arrangements and deliver sizeable amount of Group's premium hard coking coal to customers at seaborne market for industrial testing purpose. However, the commercial attractiveness will remain limited by undeveloped infrastructure and long transportation distances, as it is resulting in higher cost of revenue for coal sold under FOB Nakhodka terms.

The Group sold approximately 0.8 million tonnes of its middlings at the ASP of approximately USD37.6 per tonne during the period under review.

The breakdown of sales revenue and volumes by destination, sold coal product type and ASP for individual coal product types for the periods indicated, are tabulated below:

	Six months ended 30 June 2012				Six months ended 30 June 2011			
	Raw Coking Coal	**Washed Hard Coking Coal**	**Washed Semi-Soft Coking Coal**	**Middlings**	Raw Coking Coal	Washed Hard Coking Coal	Washed Semi-Soft Coking Coal	Middlings
Sales volume ('000 tonnes)	**286.1**	**1,261.9**	**31.7**	**796.9**	1,423	0.8	–	–
China market ('000 tonnes)	**286.1**	**1,208.6**	**31.7**	**796.9**	1,423	0.8	–	–
Seaborne market ('000 tonnes)	**–**	**53.3**	**–**	**–**	–	–	–	–
Sales Revenue (USD'000)	**25,425**	**174,984**	**2,658**	**29,965**	135,979	126	–	–
China market (USD'000)	**25,425**	**162,392**	**2,658**	**29,965**	135,979	126		
Seaborne market (USD'000)	**–**	**12,592**	**–**	**–**	–	–	–	–
ASP (USD per tonne)	**88.9**	**138.7**	**83.8**	**37.6**	95.6	155.0		
China market (USD per tonne)	**88.9**	**134.4**	**83.8**	**37.6**	95.6	155.0		
Seaborne market (USD per tonne)		**236.5**						

During the period under review, the Company derived more than 10% of the Company's total revenue from three customers, with the purchase amount of approximately USD73.1 million, USD71.5 million and USD27.1 million, respectively. During the same period in 2011, the Company also derived more than 10% of the Company's total revenue from three customers, with the purchase amounts of approximately USD53.3 million, USD38.2 million and USD21.3 million, respectively.

Cost of Revenue

The Group's cost of revenue consists primarily of mining costs, processing costs, transportation costs and other costs. Processing costs primarily include the costs associated with the operations of CHPP including power generation and distribution costs and water extraction and distribution costs.

Cost of revenue increased from approximately USD88.4 million in the six months period ended 30 June 2011 to approximately USD170.9 million in the six months period ended 30 June 2012 and the primary reason for the change in cost of revenue is increase in the sales volume, increase in taxes, royalties and fees in connection with the increase in sales volume and costs associated with coal processing.

In the first half of 2012, the unit cost of revenue was approximately USD71.9 per tonne (first half of 2011: USD61.9 per tonne). The following table presents, for the periods indicated, individual costs of revenue in terms of amount and percentages of the Company's total cost of revenue:

	Six months ended 30 June 2012			Six months ended 30 June 2011		
	USD'000	***%***	***USD per tonne***	*USD'000*	*%*	*USD per tonne*
Cost of revenue	**170,880**	**100.0**	**71.9**	88,350	100.0	61.9
Cash cost	**155,707**	**91.1**	**65.5**	86,985	98.5	60.9
Depreciation and amortization	**15,173**	**8.9**	**6.4**	1,365	1.5	1.0
Mining costs	**51,848**	**30.3**	**21.8**	35,602	40.3	24.9
Cash cost	**50,944**	**29.8**	**21.4**	35,463	40.1	24.8
Depreciation and amortization	**904**	**0.5**	**0.4**	139	0.2	0.1
Processing costs *(Notes (i) and (ii))*	**21,123**	**12.4**	**8.9**			
Cash cost	**15,199**	**8.9**	**6.4**			
Depreciation and amortization	**5,924**	**3.5**	**2.5**			
Transportation costs	**59,198**	**34.6**	**24.9**	35,874	40.6	25.1
Cash cost	**54,665**	**32.0**	**23.0**	34,736	39.3	24.3
Depreciation and amortization	**4,533**	**2.6**	**1.9**	1,138	1.3	0.8
Others *(Note (iii))*	**38,711**	**22.7**	**16.3**	16,874	19.1	11.9
Cash cost	**34,899**	**20.4**	**14.7**	16,786	19.0	11.8
Depreciation and amortization	**3,812**	**2.3**	**1.6**	88	0.1	0.1

Notes:

(i) Processing costs included the coal handling costs of USD14.0 million incurred in CHPP, the power generation and distribution costs of USD5.4 million incurred in Power Plant and the water extraction and distribution costs of USD1.7 million incurred in Water Supply Facility related to the washed coal sold during the period under review. The unit handling cost, unit power generation and distribution cost and unit water extraction and distribution costs associated with washed coal sold during the period under review were approximately USD6.7, USD2.6 and USD0.8 per tonne, respectively.

(ii) No processing costs reported for six months ended 30 June 2011, as the Group sold only approximately 811 tonnes of washed hard coking coal. The processing costs of approximately USD52.1 thousand associated with this washed hard coking coal sold were combined under mining costs related for coal sold during this period.

(iii) Others include USD18.7 million relating to the royalty and USD2.9 million relating to custom fee on the coal sold during the period under review, compared to USD11.0 million and USD2.2 million during the same period in 2011, respectively. During the period under review our effective royalty rate was 8.0% (in the first half of 2011: 8.1%).

The following table presents the individual costs of revenue for coal sold to Chinese market and seaborne market, respectively:

	Six months ended 30 June 2012			Six months ended 30 June 2011		
	USD'000	***%***	***USD per tonne***	*USD'000*	*%*	*USD per tonne*
Cost of revenue China market *(Note (i))*	**158,316**	**100.0**	**68.1**	88,350	100.0	61.9
Mining cost	**49,954**	**31.6**	**21.5**	35,602	40.3	24.9
Processing cost *(Note (ii))*	**20,259**	**12.8**	**8.7**			
Transportation and logistics cost	**50,289**	**31.8**	**21.6**	35,874	40.6	25.1
Others	**37,814**	**23.8**	**16.3**	16,874	19.1	11.8
Cost of revenue seaborne market *(Note (ii))*	**12,564**	**100.0**	**235.7**			
Mining cost	**1,894**	**15.1**	**35.5**			
Processing cost	**865**	**6.9**	**16.2**			
Transportation and logistics cost	**8,909**	**70.9**	**167.2**			
Others	**896**	**7.1**	**16.8**			

Notes:

(i) Cost of revenue for coal products sold to China-based customers under DAP GM terms or FOT TKH terms which includes transportation and logistics costs incurred to deliver product from UHG to GM or TKH.

(ii) Cost of revenue for coal products sold to seaborne market customers under FOB Nakhodka terms which include transportation and logistics costs incurred to deliver product from UHG to Nakhodka and load on the customers designated sea transportation vessels.

During the period under review, the mining unit cost associated with coal sold decreased by approximately 12.4% from USD24.9 per tonne reported in the first half of 2011 to USD21.8 per tonne. The mining unit cost, represented as cost per total material movement, was USD4.2 per BCM in the first half of 2012 or approximately 7.5% lower compared to USD4.5 per BCM reported for the corresponding period in last year.

The strip ratio at the UHG mine was approximately 6.44 bank cubic meter ("**BCM**")/ROMt and at BN mine 5.27 BCM/ROMt, representing the overall strip ratio of 6.32 BCM/ROMt (first half of 2011: 6.27 BCM/ROMt).

As of 30 June 2012, the transportation unit cost associated with coal sold was USD24.9 per tonne compared to USD25.1 per tonne reported for the corresponding period in last year. The transportation cost USD167.2 per tonne for coal sold under FOB Nakhodka terms is significantly higher compared to USD21.6 per tonne transportation cost for coal sold to Chinese market. The increased transportation efficiency between UHG and TKH reached by utilization of paved road and double-trailers trucks, which reduced the third party transportation volume, resulted in approximately 13.9% decrease in the transportation cost for coal sold at Chinese market in the first half of 2012. For cross-border transportation between TKH and GM, the Group was mostly utilizing third party contractors, therefore the Group sees next potential in reduction of transportation costs by reducing the dependency on third party contractors in the cross-border transportation between TKH and GM.

As of 30 June 2012, the processing unit cost associated with coal sold was USD8.9 per tonne. The ASP of washed hard coking coal of USD138.7 per tonne was approximately USD49.8 per tonne or 56.0% higher compared to USD88.9 USD per tonne for raw coking coal. In addition, the processing cost is partially offset by savings in VAT, as according to regulations 10% VAT is paid for all goods and services procured in Mongolia and in case of exporting washed coal, the Company is entitled to VAT rebates, thus decreasing the operating costs accordingly.

In the first half of 2012, the other cost of revenue includes costs related to royalty, custom and air pollution fees and site operational costs including TKH logistics costs and paved road amortization costs. The unit royalty cost was approximately USD7.8 per tonne, unit custom and air pollution fees cost was approximately USD2.1 per tonne and site operational unit cost, including TKH logistics costs, was USD3.8 per tonne (first half of 2011: USD7.7 per tonne, USD2.2 per tonne and USD2.0 per tonne, respectively). The Group started to utilize the UHG-GS paved road for its coal transportation starting from the last quarter of 2011, and during period under review, unit cost associated with paved road maintenance and amortization was USD2.2 per tonne.

Gross Profit and Gross Profit Margin

The Company's gross profit for the six months ended 30 June 2012 were approximately USD62.2 million, representing an increase by 30.0% from the gross profit of USD47.8 million for the six months ended 30 June 2011. The increase was primarily attributable to the higher revenue driven by increase in total sales volume, commencement of sales of washed hard coking coal (which commands higher prices than raw coal), and increase in the ASP.

During the period under review, the gross profit margin was approximately 26.7%, compared with 35.1% for the same period in 2011. The reason for the change in gross profit margin was mainly attributable to increase in cost of revenue attributable to processing and transportation costs for sold coal during the period under review. Management expects that the unit processing and transportation costs will decrease in the second half of the year, as they expect higher sales volume and revenue, while the depreciation and amortization components related to processing and transportation costs of coal sold will remain at similar level.

General and Administrative Expenses

During the period under review, administrative expenses were approximately USD19.1 million, compared to USD23.9 million in the same period in 2011, representing a reduction of approximately 20.1%. The reduction in administrative expenses is primarily due to (i) no management fee charged under provisions of Management Agreement with MCS Holding LLC as this agreement has expired effective from 1 January 2012, (ii) no acquisition related one-off expenses were incurred, and (iii) less expenses related to geological exploration work.

Net Finance Cost/(Income)

Net finance cost for the six months ended 30 June 2012 was approximately USD5.8 million (for the first half of 2011: net finance income of USD3.8 million). Net finance cost for the six months ended 30 June 2012 was primarily due to interest expenses related to the Senior Notes and other credit facilities.

Income Tax Expenses

The Company's income tax expenses increased from USD8.1 million for the six months ended 30 June 2011 to approximately USD8.9 million for the six months ended 30 June 2012, representing approximately 22.4% effective tax rate for the six months ended 30 June 2012 (for the first half of 2011: 29.1%). The increase in the income tax expenses was due to the increase of taxable income.

Profit for the Period

As a result of the foregoing, the profit attributable to equity shareholders of the Company for the period under review increased by approximately 56.2%, from USD19.8 million for the six months ended 30 June 2011 to approximately USD31.0 million for the six months ended 30 June 2012, representing net profit margin of 13.3% for the six months ended 30 June 2012 (for the first half of 2011: 14.6%). The primary reason of increase in profit for the period was commencement of sales of washed hard coking coal, increase in sales volume and decrease in general and administrative expenses.

Liquidity and Capital Resources

For the period of six months ended 30 June 2012, the Company's cash needs had been related primarily to costs associated with mining and infrastructure development, which includes construction of CHPP modules 2 and 3, additional water facility, paved road construction between BN and UHG mines and railway construction.

The Company's cash resources were funded by (i) the successful issuance of USD600 million Guaranteed Senior Notes due 2017, (ii) Standard Bank Facility of up to USD300 million, and (iii) operating activities.

The Company's policy is to regularly monitor current and expected liquidity requirements and compliance with debt covenants to ensure that the Company maintains sufficient reserves of cash to meet its liquidity requirements in the short and long term.

Indebtedness

As of 30 June 2012, the Company had approximately USD1,025.4 million of outstanding short-term and long-term borrowings, including indebtedness incurred under (i) USD600 million Guaranteed Senior Notes, (ii) USD180 million facility agreements with European Bank for Reconstruction and Development, FMO – Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. and DEG – Deutsche Investitions-und Entwicklungsgesellschaft mbH (the "**EBRD, FMO and DEG Loan Agreements**"), (iii) up to USD300 million facility agreement with Standard Bank Plc (the "**Standard Bank Facility**"), and (iv) USD85 million Convertible Bonds.

The USD600 million Senior Notes, rated B1 by Moody's Investors Service, Inc. and B+ by Standard and Poor's Ratings Services, bear fixed interest rate of 8.875% per annum payable semi-annually. The Senior Notes will mature in March 2017, unless earlier redeemed. As of 30 June 2012, the outstanding principal amount was USD600 million.

The EBRD, FMO and DEG Loan Agreements bear interest semi-annually at the rate of six-month LIBOR plus a margin of 3.25%-3.75% per annum. Pursuant to the Amendment and Consent Agreement dated 5 March 2012, the margin per annum was reduced from 4.75%-6.85% to 3.25%-3.75%. USD120 million principal amount of the loans is repayable in 11 semi-annual installments ending on 15 May 2016 and USD60 million principal amount of the loans is repayable on two equal installments on 15 May 2015 and 15 May 2016, respectively. As of 30 June 2012, the outstanding principal amount was USD158.2 million.

The Standard Bank Facility bears interest of LIBOR plus a margin of 5.25% per annum. The loan is repayable in 10 quarterly installments starting from December 2012 and ending in March 2015. As of 30 June 2012, the outstanding principal amount was USD200 million. The Company cancelled the remaining available facility of USD100 million in March 2012.

The USD85 million Convertible Bonds will mature on 1 December 2012. The maturity date is extendable to 1 March 2013 subject to a reserve adjustment (as defined in the announcement of the Company dated 1 June 2011). The Convertible Bonds are convertible into shares at the bondholder's option in the four days prior to the maturity date at a conversion rate of HKD10.92 per share.

Credit Risk

The Company closely monitors the credit exposure. Credit risk is primarily attributable to cash at bank, trade and other receivables.

Substantially all of the Company's cash at bank are deposited in the reputable banks which the management assessed the credit risk to be insignificant.

For the six months ended 30 June 2012, the Company had approximately USD29.3 million in trade receivables, USD138.3 million in other receivables and USD4.1 million for allowance of doubtful debts. For the six months ended 30 June 2011, the Group had USD3.2 million in trade receivables and USD61.0 million in other receivables. The Company holds monthly Credit Committee meetings to review, assess and evaluate Company's overall credit quality and the recoverable amount of each individual trade credit on an ongoing basis. Based on the Company's continuous effort and implementation of the credit policy, the credit risk has been significantly reduced. Nevertheless, management continues to monitor the exposures, including but not limited to the current ability to pay, taking into account the information specific to the customer as well as pertaining to the economic environment in which the customer operates, on a continuous basis.

With regard to other receivables of USD138.3 million, it is mainly related to VAT and other tax receivables of USD60.9 million. Tax authority audited and approved the Group's VAT tax refund and the Group has started offsetting the VAT refund with its other tax payments. The remaining amounts are deposits, advances, prepayments and other receivables of USD77.4 million in the ordinary course of business. Management believes that there is no issue in collectability of such receivables.

Foreign Exchange Risk

During the six months ended 30 June 2012 and 2011, 100.0% of the revenue and approximately 40.5% and 57.3% of the purchases were denominated in currencies other than MNT, the functional currency of the Company's Mongolian entities.

Cash and cash equivalents denominated in the currency other than the functional currency of the entity to which they relate as of 30 June 2012 and 31 December 2011 amounted to approximately USD328.0 million and USD119.9 million, respectively. Total borrowings denominated in the currency other than the functional currency of the entity to which they relate as of 30 June 2012 and 31 December 2011 amounted to approximately USD155.8 million and USD179.5 million, respectively.

For the six months ended 30 June 2012 and 2011, approximately 68.6% and 71.9% of the revenues were denominated in USD with the remaining denominated in RMB.

For the six months ended 30 June 2012, approximately 51.4%, 14.6% and 35.8% of the cost of revenue, operating expenditures and capital expenditures, respectively, were denominated in USD, with the remaining denominated in MNT. For the six months ended 30 June 2011, 60.1%, 19.4% and 59.9% of the cost of revenue, operating expenditures and capital expenditures, respectively, were denominated in USD, 1.0% and 0.2% of operating expenditures and capital expenditures, respectively, were denominated in RMB, with the remaining denominated in MNT.

Although the majority of the Company's assets and operational expenses are denominated in MNT, a large portion of those, including fuel and capital expenditure, are import costs and thus linked to USD and RMB prices. Therefore, the Company believes that there exists a natural hedge that partially offsets foreign exchange risk.

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

Pledge of Assets of the Group

As at 30 June 2012, the Company pledged Energy Resources LLC's current accounts held with Trade and Development Bank of Mongolia, Khan Bank of Mongolia, Golomt Bank of Mongolia, Debt Service Reserve Account with Standard Bank Plc for EBRD loan repayment, Collection and Cash Collateral accounts with Standard Bank for Standard Bank facility repayment, coal sales contracts with Inner Mongolia Qinghua Group of China, Inner Mongolia Fuji Energy Co., Ltd, Winsway Resources Holdings Private Limited, Shenhua Bayannaor Energy Co., Ltd; coal stockpile of Energy Resources LLC; coal mining agreement with Leighton; engineering, procurement, construction and management for the CHPP constructed at the UHG deposit with Sedgman; power plant; CHPP modules 1 and 2; water facilities; share of Mongolian Coal Corporation Limited and Mongolian Coal Corporation Sarl for credit facilities and Senior Notes in the aggregate amount of USD942.4 million.

Contingent Liabilities

As at 30 June 2012, the Company has a contingent liability in respect of the consideration adjustments for the Acquisition of BN Group, which may arise from the Reserve Adjustment and the Royalty Provision.

Operating Lease Commitments

As at 30 June 2012, the Company had contracted obligations consisting of operating leases which totaled approximately USD6.9 million with USD5.6 million due within one year and USD1.3 million due between two and five years. Lease terms range from one to five years, with fixed rentals.

Capital Commitments

As at 30 June 2012, the Company had capital commitment of capital expenditure for an amount of approximately USD195.1 million, out of which USD72.7 million was contracted for and USD122.4 was authorized but not contracted for.

Financial Instruments

The USD85 million Convertible Bonds have been accounted for as a hybrid financial instrument containing both a derivative component and a liability component. The derivative component was initially recognized at its fair value of USD10.3 million and the attributable cost of USD0.1 million was charged to the profit and loss for the six months ended 30 June 2012. The liability component was initially recognized at amortized cost of USD79.1 million, after taking into account USD0.9 million as an attributable cost.

The Company has a share option scheme, which was adopted on 17 September 2011 whereby the Board is authorized, at its discretion, to grant to eligible participants options to subscribe for shares 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 3,000,000 and 32,200,000 options to directors and employees on 12 October 2011, respectively. The exercise price is HKD6.66. The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. For the six months ended 30 June 2012, USD3.6 million was recognized in administrative expenses and capital reserve in relation to the equity-settled share-based transactions.

The Senior Notes have been accounted for as a hybrid financial instrument containing both a derivative component and a liability component. The derivative component was initially recognised at its fair value of USD4.9 million, and the attributable transaction cost of USD0.11 million were charged to the profit or loss for the six months ended 30 June 2012. The fair value of the derivative component as at 30 June 2012 was USD6.3 million which was presented as derivative financial instruments (see Note 13). The liability component was initially recognised at amortised cost of USD591.7 million, after taking into account USD13.2 million as an attributable costs.

Employees

As at 30 June 2012, the number of employees of the Group reached 2,425 compared with 1,619 employees as at 30 June 2011. Total employee remuneration for the six months ended 30 June 2012 and 2011 were USD20.1 million and USD7.8 million respectively.

Dividend

In view of the major production and infrastructure development projects committed or being planned by the Company, the Board decided not to pay any dividend for the six months ended 30 June 2012 (dividend for the six months ended 30 June 2011: nil).

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

For the six months ended 30 June 2012, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules. Specific enquiry has been made to all the Directors and all the Directors have confirmed that they have complied with the Model Code throughout the six months ended 30 June 2012.

The Company has also established written guidelines on no less exacting terms than the Model Code for securities transactions by relevant employees (the "**Employees Written Guidelines**") who are likely to be in possession of unpublished price-sensitive information of the Company. No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

Corporate Governance Practices

The Company has adopted the code provisions set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Listing Rules as its code of corporate governance. CG Code provision E.1.2 stipulates that the chairman of the board should attend the annual general meeting of the Company ("**AGM**"). 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 2012 AGM due to important business engagement. The Company has complied with all other applicable code provisions as set out in the CG code.

Review by the Audit Committee

Our Audit Committee currently comprises one non-executive Director, Ms. Enkhtuvshin Gombo, and three independent non-executive Directors, namely Mr. Chan Tze Ching, Ignatius, Mr. Unenbat Jigjid, and Mr. Ochirbat Punsalmaa. Mr. Chan Tze Ching, Ignatius is the chairman of the Audit Committee.

The Audit Committee has reviewed the interim results of the Group for the six months ended 30 June 2012.

Publication of the 2012 Unaudited Consolidated Interim Results and 2012 Interim Report on the websites of the Stock Exchange and the Company

This interim results announcement is published on the website of the Stock Exchange (www.hkexnews.hk) and the Company's website (www.mmc.mn), and the 2012 Interim Report containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and published on the respective websites of the Stock Exchange and the Company in due course.

For and On Behalf of the Board
Mongolian Mining Corporation
Odjargal Jambaljamts
Chairman

Hong Kong, 8 August 2012

As at the date of this announcement, the Board consists of Mr. Odjargal Jambaljamts and Dr. Battsengel Gotov, being the executive Directors, Mr. Gantumur Lingov, Ms. Enkhtuvshin Gombo, Mr. Od Jambaljamts, Dr. Oyungerel Janchiv, Mr. Philip Hubert ter Woort and Mr. Batsaikhan Purev, being the non-executive Directors, and Mr. Ochirbat Punsalmaa, Mr. Unenbat Jigjid and Mr. Chan Tze Ching, Ignatius, being the independent non-executive Directors.