

MEC

MONGOLIA ENERGY CORPORATION

蒙古能源有限公司

Incorporated in Bermuda with limited liability
Stock Code: 276

2019 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT





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ABOUT THE REPORT

This Environmental, Social and Governance Report (“**Report**” or “**ESG Report**”) provides information about the principles and actions of sustainable development of Mongolia Energy Corporation Limited (“**MEC**” or the “**Company**”, and together with its subsidiaries, the “**Group**”) as a corporate citizen and its relationships with major stakeholders. The contents of this ESG Report have been prepared after taking into account the materiality of sustainability issues arising from the Group’s operations.

OUR VALUES

MEC’s Sustainability Values are driven by integrity and responsibility:



T: We ensure the disclosure of relevant information in a prompt and frank manner to our stakeholders.

O: We intend to seek the best potential outcome in each situation to create a better future for our Company and stakeholders.

C: We are keen to create a sense of unity through shared common goals and interests, not only with our shareholders, but also with our employees and local communities.

A: We do what is necessary to achieve our goals without compromising any of our core values and beliefs.

R: We abide by our Company’s moral obligations and the regulations of our host countries, and are always accountable for our actions.

E: We take pride in sharing our values and knowledge with all of our stakeholders, and believe that there is much we can learn from each other.

All information included in this Report is based on the data submitted to the relevant Mongolian governmental agencies and results of regularly monitored reports of performance from the Khushuut mine site and Xinjiang washing plant as well as from data of other governmental authorities and the information and sources which we believe to be true and correct.

CORPORATE GOVERNANCE

We believe good corporate governance principles and practices are the foundation of a company's long term success. MEC maintains the highest ethical standards when making decisions to protect the interests of the Company and its shareholders. Our governance policies and practices are well-established and apply to every business activity at all levels.

Our Board of Directors is the highest governance body within the Group having the responsibility to review and maintain the corporate governance to ensure that the Group is consistently conducting the business in a socially responsible and ethical manner, as well as handling alleged unethical conducts and violation of rules promptly and discreetly. Members of the Board of Directors of the Company have a diverse range of business and professional expertise and possess appropriate experience and competencies to discharge their duties effectively.

We are committed to follow the best practices in managing the environmental aspects of our operations. We pay utmost attention to minimize the impact and invest considerable amount of our resources in environmental management and community relations. MoEnCo LLC ("**MoEnCo**"), our principal operating subsidiary in Mongolia, applies advanced rehabilitation technology to improve, if not restore, the environment to its pre-mining condition in the mining areas.

BOUNDARY AND SCOPE OF THIS REPORT

This Report presents the environmental and social responsibility approach and performance of the Group for the financial year, from 1 April 2018 to 31 March 2019 ("**Financial Year**"). As our principal activities take place in Mongolia, the Report includes the environmental and social governance programs in Mongolia, particularly at the Khushuut mine site located in the far-western province of Khovd, Mongolia where MoEnCo operates and in Xinjiang, the People's Republic of China ("**PRC**" or "**China**") where our washing plant is situated.

Some of the information is presented on calendar-year basis in order to ensure that it is consistent with the information submitted to the various governmental agencies in Mongolia and PRC.

ESG REPORTING GUIDE

Our Report¹ is prepared in accordance with the Environmental, Social and Governance ("**ESG**") Reporting Guide of Hong Kong Exchanges and Clearing Limited. The ESG Reporting Guide encourages companies to report on practices and performance that relate to sustainability in a manner that is transparent and uses a globally shared framework of indicators.

¹ For external assurance MEC has instructed a certified corporate law firm in Mongolia TemugeLaw LLC, (www.temugelaw.com) to verify the Report's compliance facts in Mongolia.

THE COMPANY

MEC is an investment holding company. The Group's principal business is coal mining and exploration which is operated by our indirect wholly-owned subsidiary in Mongolia, MoEnCo.

Our principal project is the Khushuut Coking Coal Project in Khovd province, Western Mongolia. We sell coking coal and thermal coal to our customers in China and Mongolia respectively.

The Khushuut project consists of

- (i) open pit coal mine with approximately 230 hectares of mine-disturbed area;
- (ii) a dry coal processing plant ("**DPP**") with an annual 2 million tonnes capacity;
- (iii) a 360 people capacity camp at Khushuut mine site ;
- (iv) an on-site chemical laboratory, repair workshops for heavy duty mine machineries and trucks, and other technical facilities;
- (v) 311 km heavy duty paved road from the mine to the nearest border of China at Yarant;
- (vi) Uyench Customs Bonded Yard ("**Uyench CBY**") and processing center with a 60-resident capacity camp, covering 50 hectares;
- (vii) a customs processing point near the border between Mongolia and China covering 10 hectares; and
- (viii) a washing plant in China operated by our PRC subsidiary.

The Khushuut village with approximately 650 residents is in the vicinity of the Khushuut mine site.

The mine is located at the height of 2,000 meters in average above sea level in Altai Mountains, exposing to extreme weather conditions throughout the year. Temperatures fluctuate between 28°C in summer and -40°C in winter. Winter is long with heavy snowfall and gale force wind between October and April. The wind is always strong and gusty on-site with wind speed of up to 20 meters per second.

Extreme weather conditions and remote mountainous terrain not only make the mining operations challenging, but also call for the specific environmental conservation policies and measures. Significant resources are required to conserve the environment and minimize the impact of our operations on the local community.



The Group believes that through a deliberate planning of our mining-related projects, implementation of pollution control measures, monitoring the effects of mining and rehabilitation of mined areas would minimize the impact of our activities on the neighboring communities, restoring the environment and maintaining long-term land sustainability.

ENVIRONMENTAL POLICY

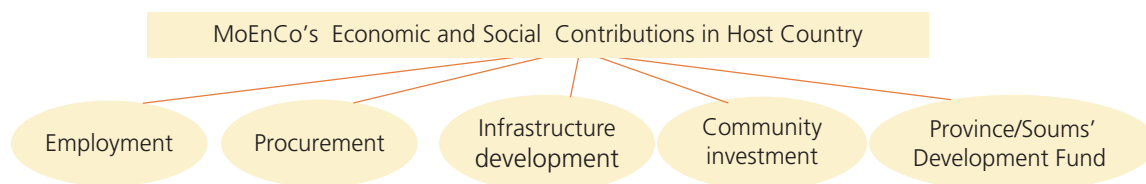
The Group has adopted an environmental policy focusing primarily on, among others, complying with the host-country legislations and regulations; establishing management systems and programs relevant to our environmental risks to prevent, reduce or mitigate impacts at all stages of our operations; regularly assessing our performance through evaluating our business processes and practices, and monitoring the surrounding environment in which we operate.

The Group's environmental responsibility principles and actions consist of:

- (i) compliance with the laws and regulatory frameworks;
- (ii) environmental impact assessment;
- (iii) environmental management systems and programmes;
- (iv) environmental monitoring; and
- (v) environmental auditing, including (i) internal, (ii) hiring independent third parties and (iii) through government agencies.

MEC sees the importance of promoting green culture at our workplace and encourages our employees to sustain green efforts in their daily lives. Our Hong Kong head office has participated in the World Green Organization ("WGO") Green Office Awards Labelling Scheme since 2015, which is a programme that strives to ensure environment sustainability as set out in the United Nations Sustainable Development Goals (UNSDG) and to practise eco-healthy workplace practice. In recognition of our efforts and commitment to reduce energy consumption and waste, and move further towards a low carbon office operation, MEC has been awarded the WGO's "Green Office" Label for five consecutive years. MEC has also been awarded the "Eco-Healthy Workplace" Label since 2017. The two awards demonstrate that we have done our utmost from the top level in Hong Kong in promoting green and healthy workplace practice.

ENVIRONMENTAL (CONTINUED)



On local level, we encourage open dialogue with the communities surrounding our operations in Khovd in order to maintain the platform for long-term collaboration, trust and sustainable community development that have been achieved over the past 10 years of MoEnCo's operations.

ENVIRONMENTAL MANAGEMENT

MoEnCo has adopted an environmental management system (EMS) and integrated it into its mining and related operations for the purposes of clean production and environmental conservation.

The EMS is an important component of the overall environmental management system. It includes (i) established organizational procedures, (ii) environmental compliance and responsibilities, and (iii) government reporting processes. Effective implementation of the EMS helps us to comply with the environmental laws and regulations, identify technical and economic benefits, and ensure that corporate environmental policies are timely adopted, followed and reported to the Mongolian government and the shareholders of the Company.

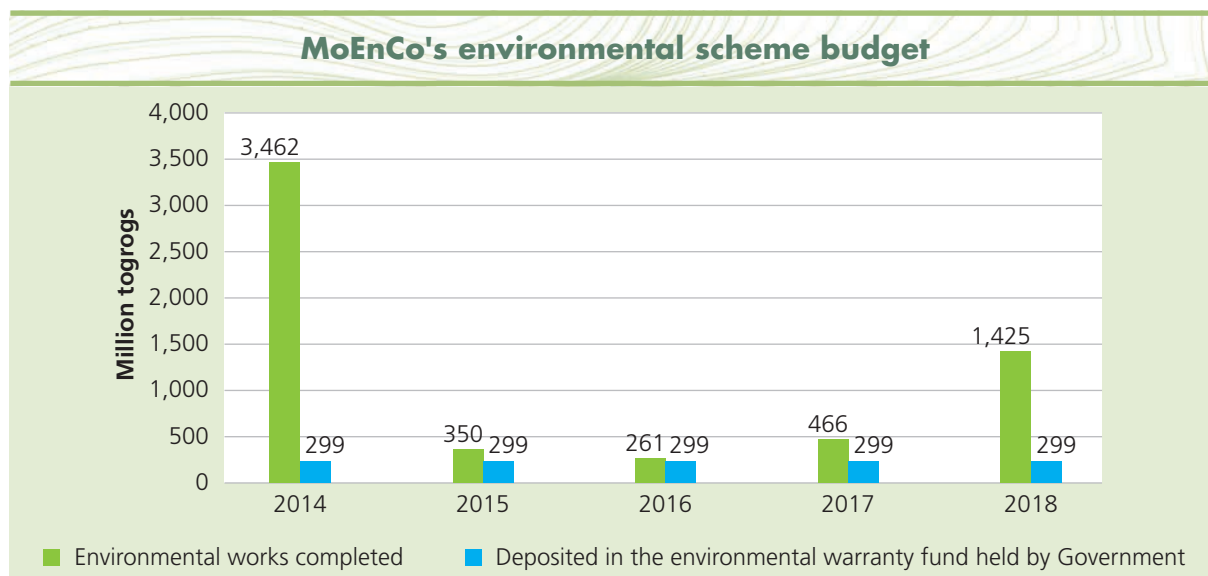
MoEnCo's environmental management team and their responsibilities:

Khushuut Mine Director Health, Safety and Environmental ("HSE") Department	HSE Department oversees the environmental protection performance of MoEnCo under supervision of the Mine Director. The team is responsible for preparing and implementation of MoEnCo's environmental management plans and programs.
Emergency Response Team	The team identifies and addresses possible measures to reduce the adverse impacts of our operations on the environment and health and safety of our workers and surrounding community.
Legal Department	MoEnCo's legal department works closely with the environmental management team to ensure compliance with the relevant environmental legislations. The Legal Department is also responsible for ensuring timely execution and submission of environmental plans and reports to related central authorities, and obtaining the requisite licences and permissions.

Under our 2018 Environmental Management Plan ("EMP"), MoEnCo had disbursed approximately 1,425 million togrogs (approximately HK\$ 4,308,780.84)² for environmental works.

According to the General Environmental Protection Law and Minerals Law of Mongolia, a mineral licence holder must deposit a certain amount of funds as assurance of its environmental reclamation. In 2018, MoEnCo accrued approximately 229 million togrogs (approximately HK\$692,428.64) in a special warranty account of Ministry of Environment and Tourism.

² In this Report, translation of togrogs into HK\$ is based on the exchange rate of HK\$1:330.72 togrogs. No representation is made that any amounts in togrogs can be or could have been converted at the above exchange rate or any other rates.



In addition, MoEnCo paid to the Mongolian Government 8.2 billion togrogs (approximately HK\$24,794,388) as royalty for using mining resources and 17.5 million togrogs (approximately HK\$52,914.85) for mining licence fees.

In 2018, MoEnCo had engaged a licenced environmental audit company, Munkh Mizu Consulting LLC for a full review and assessment of MoEnCo's environmental management, performance and rehabilitation activities. This audit company reviewed MoEnCo's performance of its environmental plans and practices against the existing laws, regulations and emission standards applicable in Mongolia. They assessed our environmental performance as good compliance with the statutory requirements, prepared an independent report and presented it to the Khovd province Government.

As a country with scarce water resources, harsh climate and lands prone to desertification and erosion, Mongolia imposes rigorous regulations, permit application requirements and procedures on environmental conservation, management and reporting. MoEnCo has to conduct its operations in compliance with the relevant environmental legislations strictly, including but not limited to, the Minerals Law of Mongolia, the Law on Environmental Protection, Law on Environmental Impact Assessments, Air Law, Land Law, Water Law, as well as a number of national standards. Fulfilling its obligations under these laws, MoEnCo submits an annual environmental management plan for the upcoming year to the three Mongolian governmental agencies for approval and also an environmental report setting out the performance of the previous year under the regulatory regime: (i) the Ministry of Environment and Tourism of Mongolia, (ii) the Mineral Resources and Petroleum Authority of Mongolia and (iii) General Agency for Specialized Inspection. In addition, MoEnCo's environmental team holds meetings regularly with experts of the General Agency for Specialized Inspection, environmental inspectors of Khovd province Government and other related government officers in relation to our environmental management strategy and efforts.

In accordance with the Law of Mongolia on Government Control and Inspection, the General Agency for Specialized Inspection must schedule and conduct regular inspections and assess MoEnCo's environmental performance. In 2018, groups of environmental inspectors of Khovd office of General Agency for Specialized Inspection visited the Khushuut mine site three times for the regular government assurance scheme.

ENVIRONMENTAL (CONTINUED)

In addition, in November 2018, the Governor of Khovd formed an 11-member group of provincial executives headed by the Director of Development Policy Department of the provincial government with the purpose of evaluating the performance of MoEnCo's 2018 EMP. After thorough assessment, the working group concluded that our 2018 EMP was 88% completed while some of the planned works were to be still in progress. The report on MoEnCo's 2018 EMP performance has been presented to the Ministry of Environment and Tourism of Mongolia along with the Khovd Government assessment statement. Our environmental management report endorsed by the Ministry of Environment and Tourism of Mongolia then has been submitted to Khovd office of General Agency for Specialized Inspection, Khovd governor and representatives of the provincial Assembly and local administration of 3 soums where we operate (Tsetseg, Darvi, Uyench of Khovd province).

Headquartered in Oslo, Norway, the Extractive Industries Transparency Initiative is the global standard to promote the open and accountable management of oil, gas and mineral resources. Mongolia joined this initiative as one of its 51 implementing countries. Under its national obligations, Mongolian government required mining companies to submit detailed reports to its database which is open to the public. MoEnCo submits its report every year in accordance with this requirement.

Some additional reporting is mandatory with respect to specific parts of MoEnCo's operations. For example, the Comprehensive Water Reports are submitted annually to the local water authority, Emergency Response Plan is presented to the General Authority for Emergency Readiness of Mongolia, and Khushuut camp hospital presents an annual detailed report of patients and disease cases to the provincial health department.

AIR QUALITY MONITORING

With the current air pollution crisis in Mongolia, the United Nations Children's Fund, World Health Organization and many other international agencies have been calling the government for immediate critical actions in recent years. Air quality concerns lead to more thorough inspections of mining operations however remote they may be. MoEnCo ensures its compliance with air quality requirements by (i) regularly measuring air emissions using own equipment; (ii) hiring relevant institutes of the Mongolian Academy of Science for comprehensive independent testing and assessment annually; and (iii) conducting measurements and tests jointly with environmental inspectors of Khovd province as part of their inspection and assurance procedure, usually 2–3 times a year.

With regard to the air emissions and monitoring procedures, all MoEnCo's operations were in compliance with:

- Air Law of Mongolia, Air Pollution Fee Law, and related regulations;
- permit requirements prescribed by various laws of Mongolia;
- mandatory reporting to the government; and
- national air quality standard MNS4585:2016 approved by the National Standardization and Measurements Committee of Mongolia in 2016.

MoEnCo carries out the air quality monitoring and testing against the requirements under standard referenced below.

Air quality-General technical requirements MNS 4585:2016 ³			
Name of the contaminant	Measured in average of	Measurement unit	Permissible amount
Chemical impact			
Sulfur dioxide (SO ₂)	Average of 20 mins	µg/m ³	450
	Average of 24 hours		50
	Annual average		20
Carbon monoxide (CO)	Average of 20 mins	µg/m ³	60000
	Average of 1 hour		30000
	Average of 8 hours		10000
Nitrogen dioxide (NO ₂)	Average of 20 mins	µg/m ³	200
	Average of 24 hours		50
	Annual average		40
Ozone (O ₃)	Average of 8 hours	µg/m ³	100
Dust (total measurable particles)	Average of 20 mins	µg/m ³	500
	Average of 24 hours		150
	Annual average		100
Coarse particles (PM ₁₀)	Average of 24 hours	µg/m ³	100
	Annual average		50
Small particles dust (PM _{2.5})	Average of 24 hours	µg/m ³	50
	Annual average		25
Lead (Pb)	Average of 24 hours	µg/m ³	1
	Annual average		0.25
Benzo(a) pyrene (C ₂₀ H ₁₂)	Average of 24 hours	µg/m ³	0.001
Physical impact			
Level of noise			
• day time (07:00 in the morning –22:00)	Average of 16 hours	decibels	60
• evening and night hours (22:00–07:00 of the next morning)	Average of 8 hours		45

³ For more information, please visit the website <http://www.agaar.mn/article-view/546>, Air Quality, the Ministry of Environment and Tourism.

ENVIRONMENTAL (CONTINUED)

MoEnCo has engaged the government agency, Information and Research Institute of Meteorology, Hydrology and Environment annually for conducting the mine air sampling and testing in five locations under the approved procedures. The Institute conducted the air pollution assessment survey in 2018 as follows:

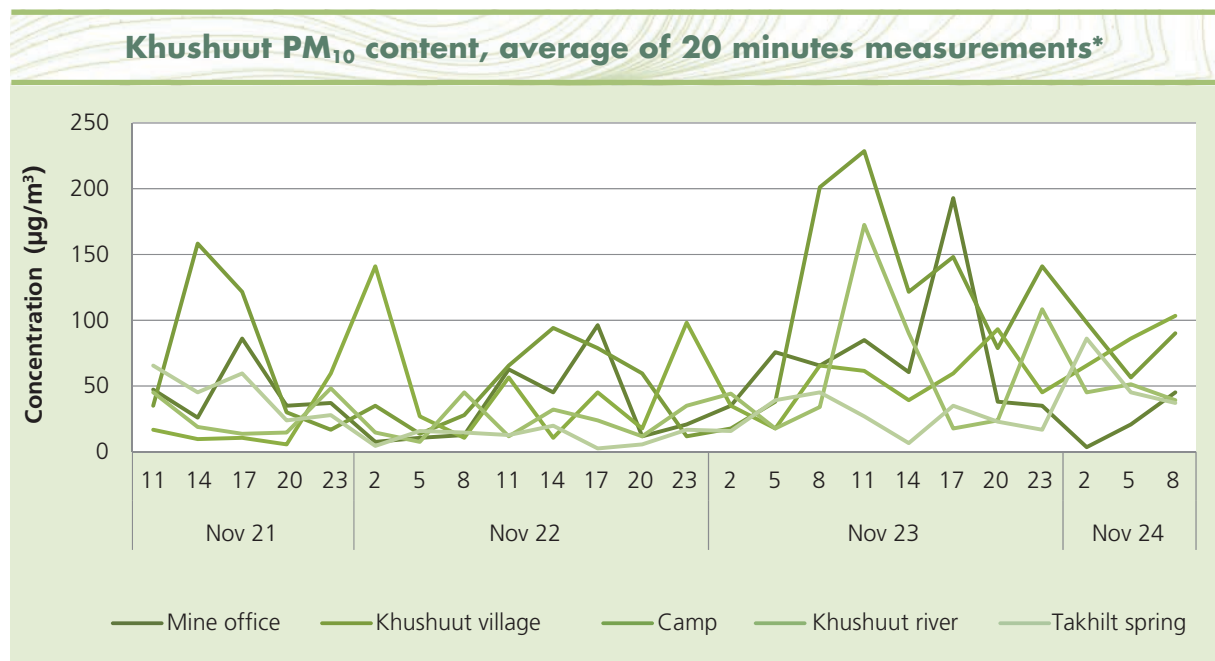
Khushuut mine site

The last survey at Khushuut mine site was conducted between November 21–24, 2018, in five locations within 2.5 km radius of the mine pit, 3–8 times in 24 hours when the measurement was carried out at the duration of 20 minutes each time over 3 or 4 days, and or continuous 24 hours for three days.

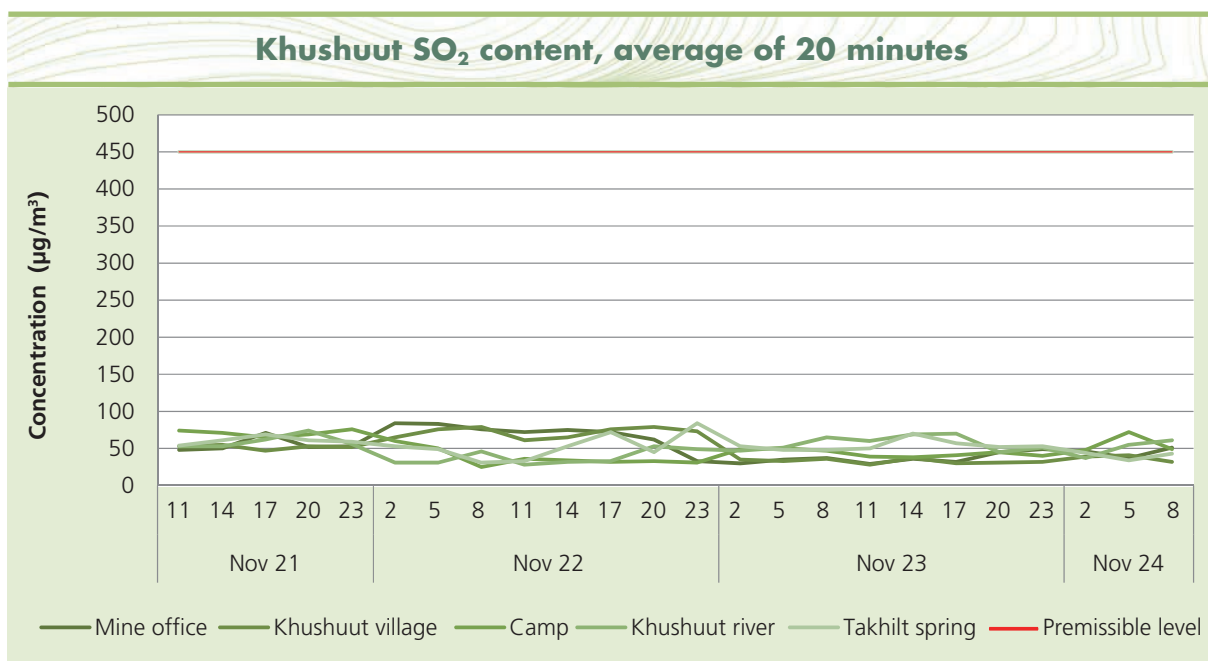
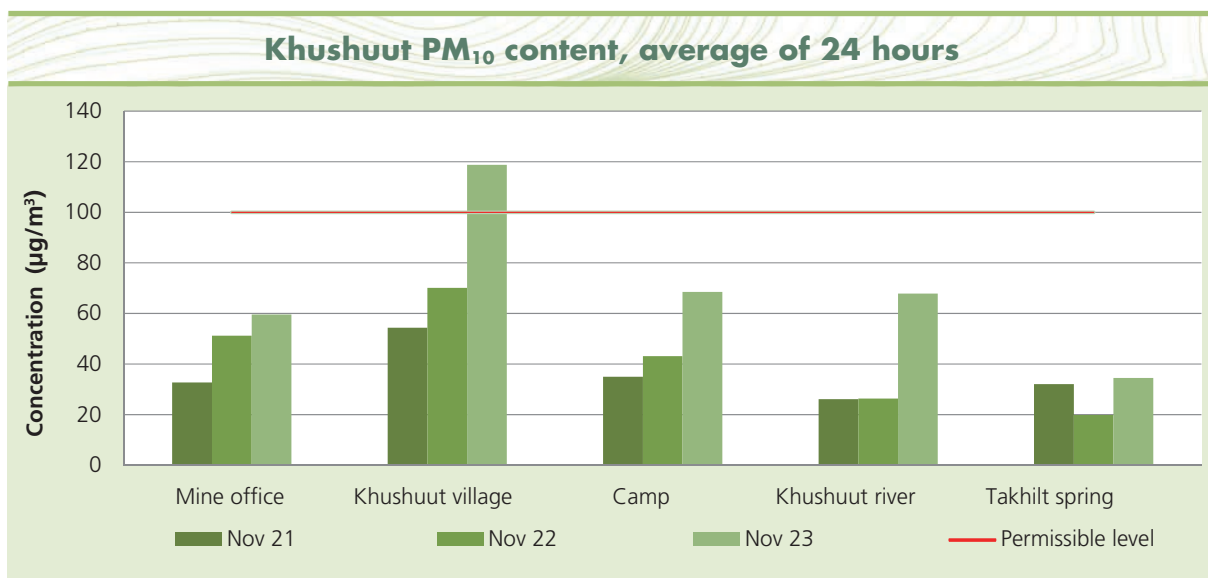


Air testing points:

- Takhilt spring 2.5km from the mine
- Camp
- Khushuut river in 1.5 km from the mine
- Mine office
- Khushuut village

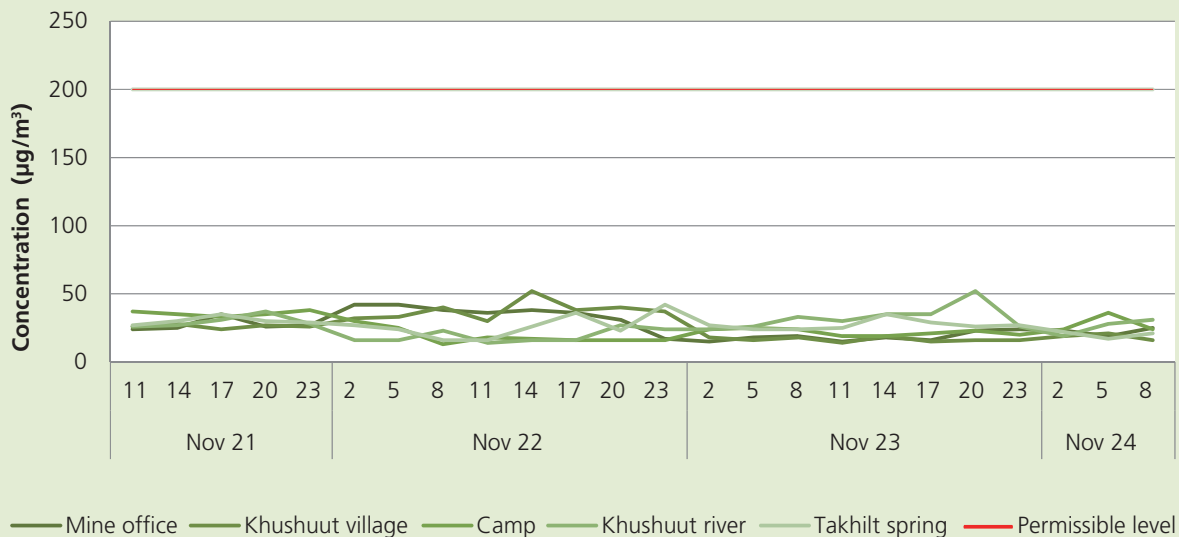


* According to MNS4585:2016, no permissible level is set.

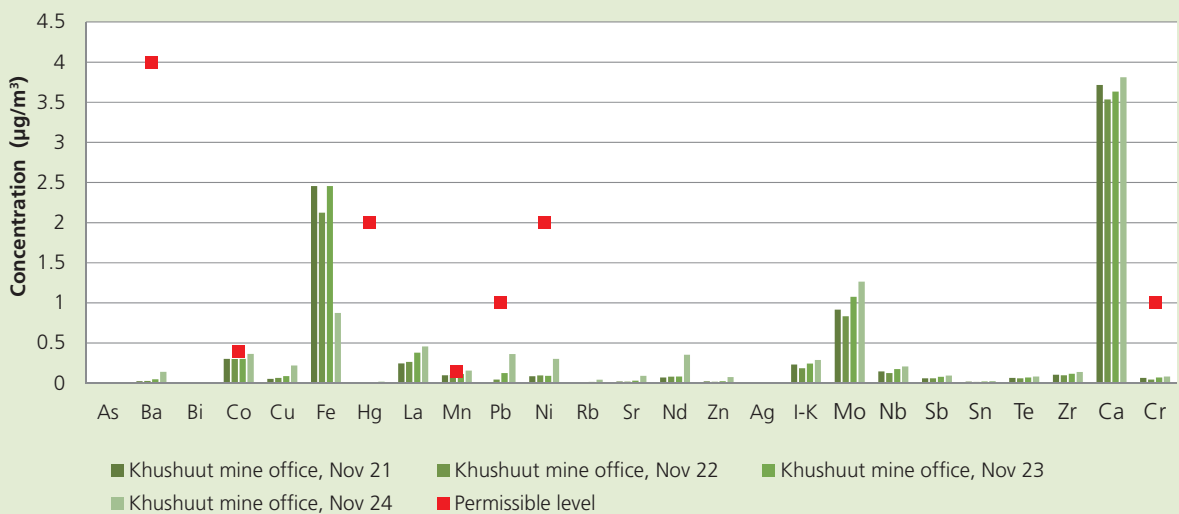


ENVIRONMENTAL (CONTINUED)

Khushuut NO₂ content, average of 20 minutes



Heavy metals content in Khushuut air



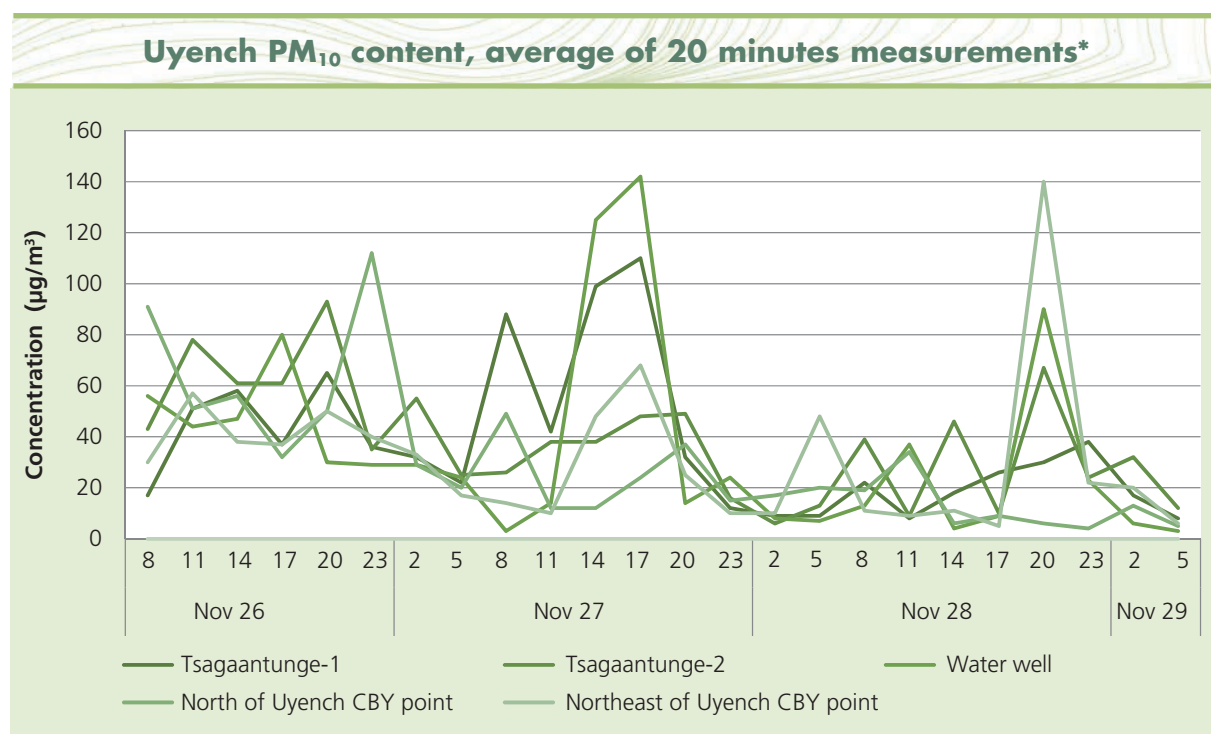
Uyench CBY

The sampling measurements were carried out between November 26–29, 2018, in five locations within radius of up to 2.5 km from the Uyench CBY coal loading and unloading area, 2–8 times in 24 hours when the measurement was carried out for duration of 20 minutes each time over 3 or 4 days, and for continuous 24 hours for three days.



Air testing points:

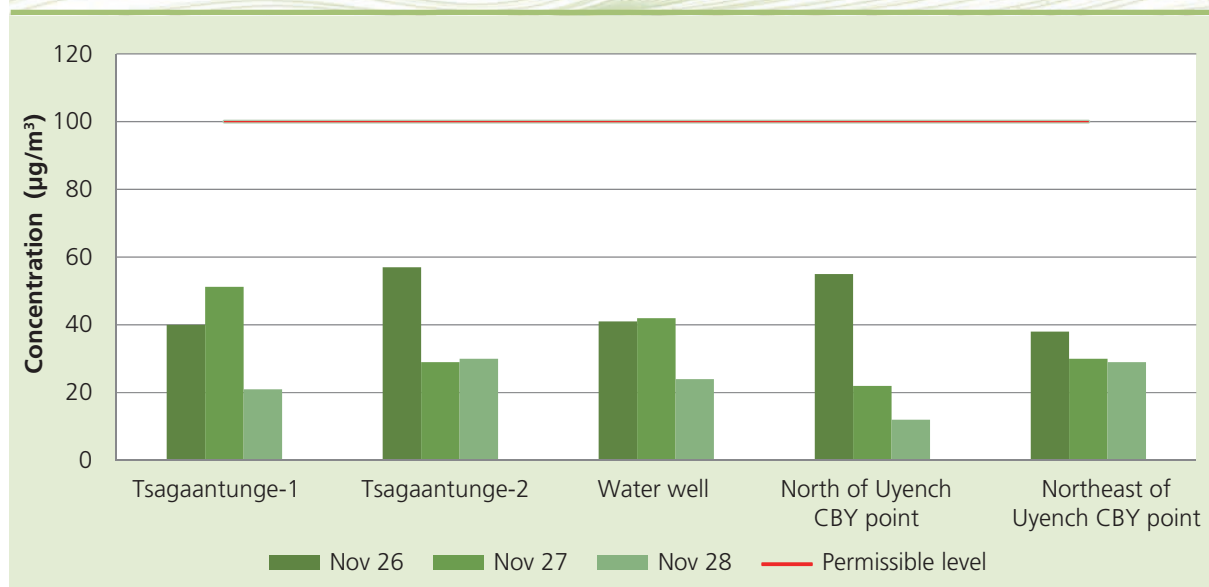
- 2.5 km north of the Uyench CBY
- CBY drinking water well, 2 km north of the Uyench CBY
- 1.5 km northeast of the Uyench CBY
- Tsagaantunge 1 point
- Tsagaantunge 2 point



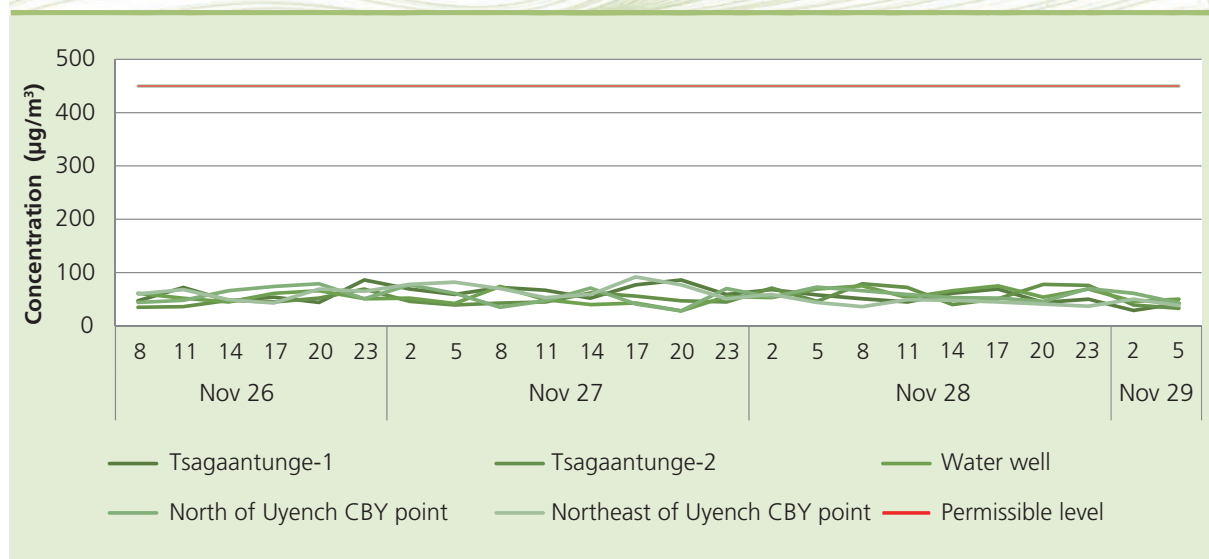
* According to MNS4585:2016, no permissible level is set.

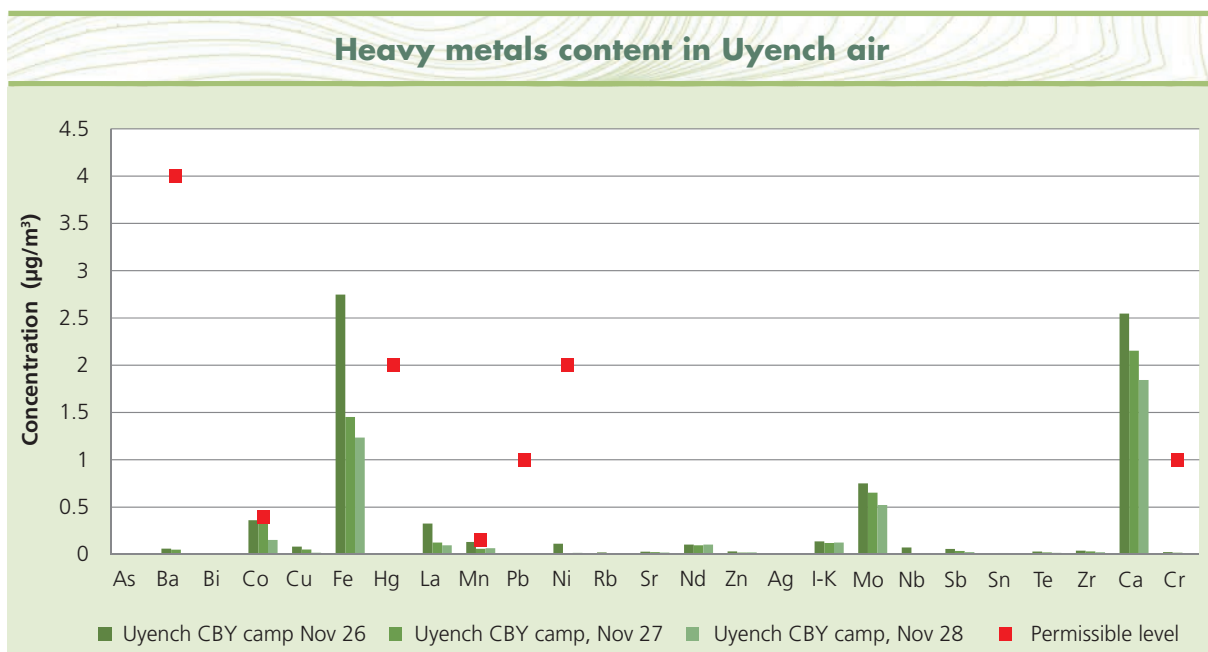
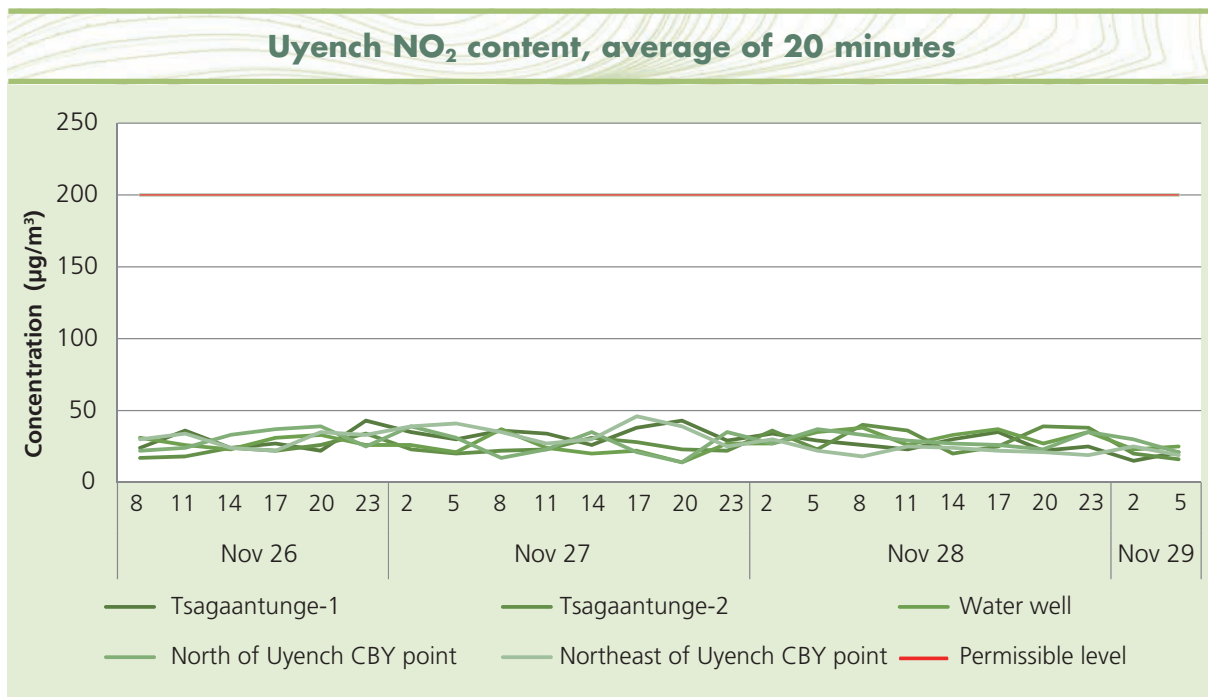
ENVIRONMENTAL (CONTINUED)

Uyench PM₁₀ content, average of 24 hours



Uyench SO₂ content, average of 20 minutes





ENVIRONMENTAL (CONTINUED)

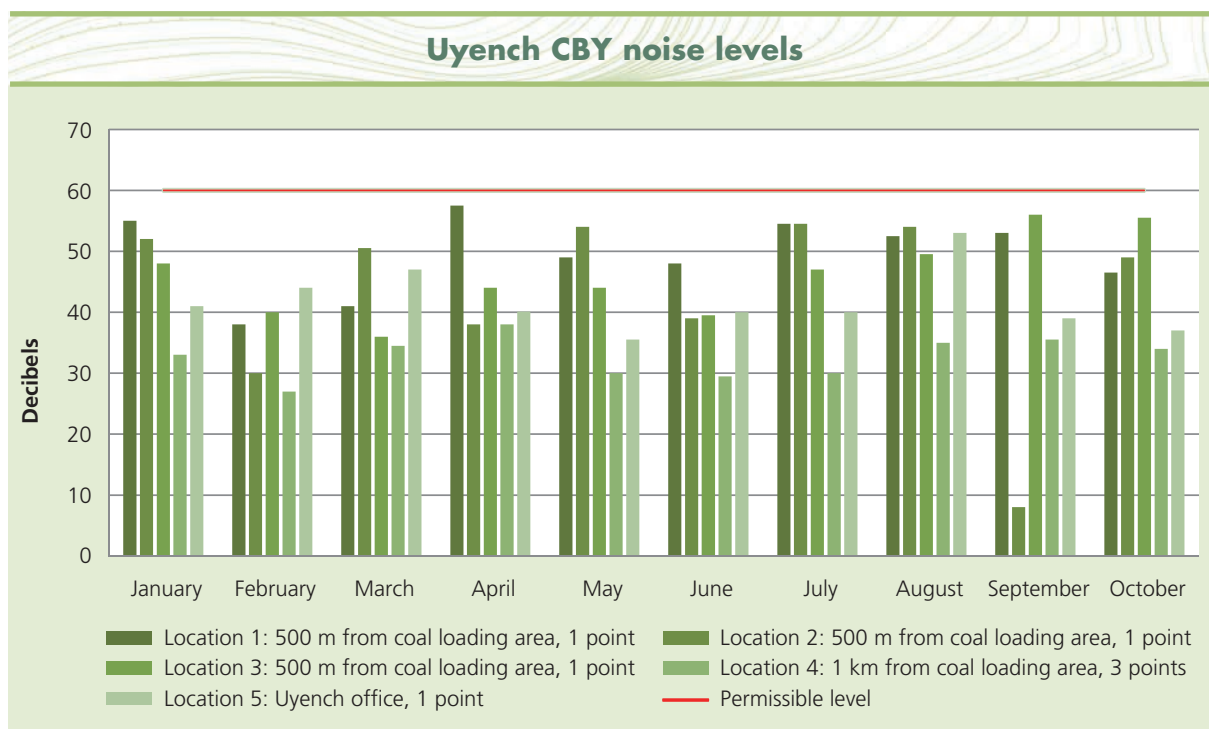
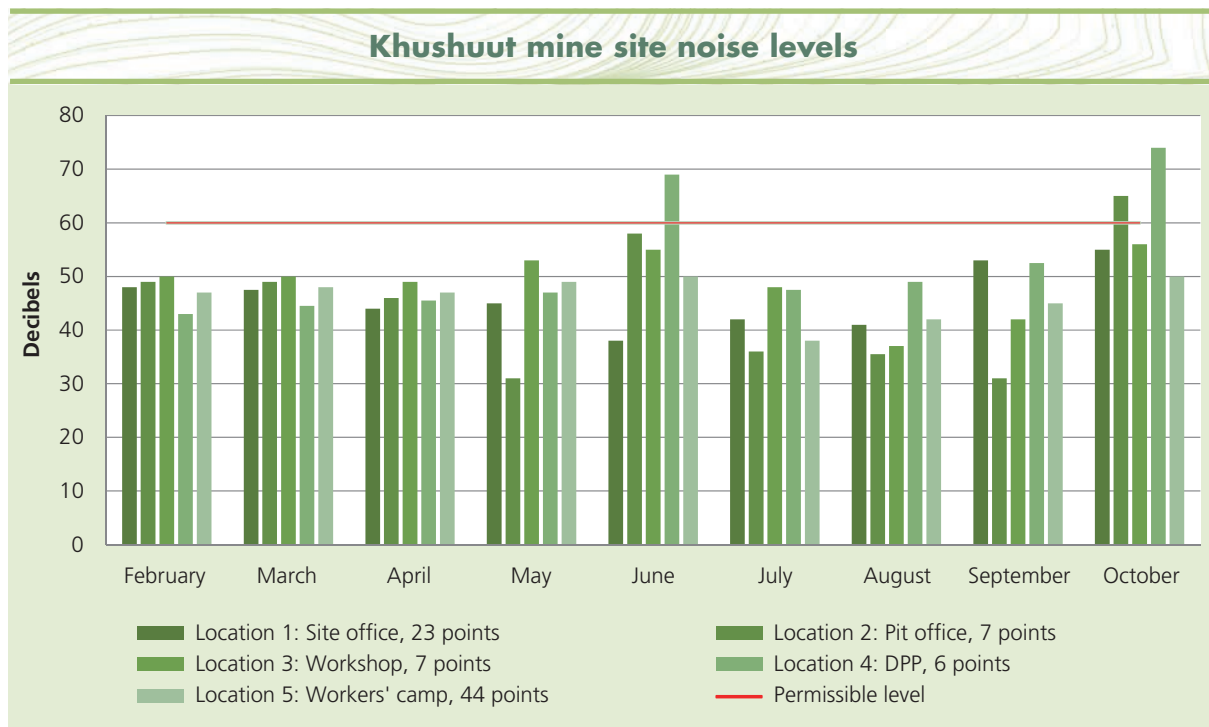
The Information and Research Institute of Meteorology, Hydrology and Environment's measurements and report, as an independent government assessment, indicated that MoEnCo's mining operations were in compliance with the Mongolian air quality standards:

- All measured emission levels were within the permissible level of the Mongolian national standard except for the PM₁₀, which presented 1.2 higher level one day at Khushuut village sampling point. This representation is most likely to be caused by households for burning coal in Khushuut village and windless weather at the time of measuring rather than coal mining operations.
- No heavy metal contents in the air were measured above the permissible level.
- Compared with the test results of 2017, the better air emissions data of 2018 could be partly attributed to the warmer weather at the time of conducting the survey and test: -15°C -27°C during the test days in 2017 compared with -6°C -19°C during the test days in 2018.

NOISE CONTROL AND REDUCTION MEASURES

As in most other heavy industries, mining can expose workers to high noise levels. Drills, crushers, mills, and some other items of mining and mineral processing at Khushuut are inherently noisy while requiring substantial attendance by the operators. MoEnCo enforces a number of strategies for noise reduction:

- To ensure safety, MoEnCo workers are strictly required to wear uniform with all the mandatory personal protection equipment and the part of which are ear plugs. Workers in noise intensive area are required to wear industrial ear plugs.
- However, the Company views hearing protectors only as an interim protective measure. We look for and develop permanent engineering solutions and administrative arrangements to reduce noise levels.
- MoEnCo's environmental team also monitors and measures noise levels and reports them to the Government as part of MoEnCo's comprehensive Environmental Management Report. In 2018, the noise measurements were conducted by using SL-5868P Portable Sound Level Meter and Noise Grader at (i) 5 different locations at Khushuut mine site, each of which also had 6-44 measurement points at each location, the total number of measuring points were 87; and (ii) 5 different locations at Uyench CBY site, each of which had 1-3 measurement points at each location, the total number of measuring points at Uyench were 7.



The test results show that the overall noise level stays within the standard requirement during most of the time for testing except for two locations, the pit office and the DPP which are the most machinery-intensive operating areas of the mine for initial coal processing. The noise level rises above the standard level in mid-summer and fall corresponding of the most busy mining operation period of MoEnCo.

DUST REDUCTION

By its very nature, the cutting and breaking of rocks during coal mining operations, top soil stripping, coal loading and unloading, produce dust. Prevention of dust hazards and inhalation of dust emission during mining operations has been a main health and safety concern for MoEnCo.

Our DPP is the most intensive coal handling area. In order to achieve dust reduction, the Group carried some studies for the best choice of advanced dust control technology suitable for Khushuut geological conditions and operations. The selected "water wall sprinkler system", one of the most efficient technologies available today to control dust in air, was piloted at Khushuut in early 2017. In 2017, there were three sprinkler machines (orchard mist blower and blast sprayer with a tank) with 16 tonnes water spraying capacity working at the site. As this dust reduction and prevention method has proven effective, we installed two additional water spraying systems in June 2018. MoEnCo had spent over 426 million togrogs (approximately HK\$1,288,098.69) for the installation of these water misting facilities in 2018.

The total water sprinkling capacity for the Khushuut and Uyench CBY is currently 80 tonnes. The daily water spraying locations are: (i) the pit's inner roads; (ii) the coal loading and unloading areas; (iii) the customs processing areas which heavy coal handling takes place. For water spraying to achieve the dust reduction, only the waste water collected at bottom and pockets of the mine pit is to be used. We believe that through such water misting, up to 40% dust reduction is achieved depending on the current wind gust. MoEnCo has allocated budget for purchasing 4 new spray machines for its Uyench CBY in 2019.

In addition to the water misting technology, MoEnCo has been taking other types of preventive measures during its production phases to reduce dust such as (i) regular watering the roads and pathways within the Khushuut mine and Uyench CBY, with over 60 tonnes of harvested waste water is sprinkled each day, (ii) enforcing 40 km/hour, speed limits when driving on the mine roads and inside the Uyench CBY, (iii) covering with gravel the surfaces of dirt roads within the mine pit and inside the coal loading and unloading area of Uyench CBY, and (iv) during the initial stage of the operations, by constructing all mandatory environmental protection facilities. MoEnCo regularly maintains these facilities for dust reduction purpose.

SOIL QUALITY MONITORING

The Group believes that monitoring the quality of soil around the Khushuut mine is extremely important for proper assessment of the associated hazards. Soil quality monitoring is important because the open cast mining operations routinely modify the surrounding landscape by exposing previously undisturbed earth materials. Erosion of exposed soils, extracted mineral ores, tailings, and fine material in waste rock piles can result in damage to soil.

Regular and comprehensive soil quality monitoring has been in place at Khushuut mine since 2010. Soil quality monitoring at Uyench CBY started even before its operation in January 2017. The current 15 soil quality sampling points at Khushuut mine were selected in 2012 by the Laboratory of Soil Science of Institute of Geography of Mongolian Academy of Science. In 2018, the samples were collected quarterly at 15 soil quality sampling points at the Khushuut mine site and its vicinity of 5 km and 6 sampling points at Uyench CBY, and sent to the Laboratory of Soil Science where they were analyzed for general chemical composition, texture, moisture and heavy metals content. The results presented by this laboratory that all soil samples contained normal levels of moisture and other chemicals, and there was no soil pollution.

In addition to monitoring the quality of soil, the Khushuut mine site environmental team prevents soil contamination by covering of protective cover film of layers of sand and gravel for heavy duty areas of the mine site (diesel generators areas, fuel stations, parts of the repair workshop).

REHABILITATION OF MINE DISTURBED AREAS

Land rehabilitation is an important component of MoEnCo's mining activities. Timely and professional rehabilitation is essential for the Khushuut mine area with extreme weather conditions, high mountain altitudes and fragile, thin, sporadic topsoil. Land rehabilitation program of MoEnCo is implemented through various types of land and community support works, while some of which are statutory (i.e. preservation of fertile topsoil), many of them are voluntary on the part of MoEnCo to offer as part of our environmental stewardship. The program includes (i) geological or biological reclamation of mined areas; (ii) preservation of fertile topsoil; (iii) offering land reclamation in non-mining areas in a volume corresponding to the size of our mined lands; (iv) planting and nurturing trees, bushes and making vegetation strips along the coal transporting roads, around the Khushuut village and the mine pit; (v) caring for historic monuments in the isolated areas; (vi) land improvements and technical works at remote water sources such as natural springs; (vii) rehabilitating mine areas abandoned long ago at request of the administration of soums where we operate; and (viii) helping the local communities to preserve and recreationally use the local natural sites.

In protecting and rehabilitating its mine disturbed area, MoEnCo has complied with the relevant Mongolian laws, regulations and the national standard MNS 5916:2008. In 2018, MoEnCo's fertile topsoil removal, preservation and storing procedures for ensuring the topsoil quality had been inspected two times by Khovd province environmental inspection team and assessed as being in compliance with the government imposed requirements. MoEnCo prepares the annual mining works plan (including land rehabilitation actions and the budget marked for land works), for approval by the Government.

In 2018, there was no area reclaimed in geological or biological terms within the Khushuut mine's current operation fields because of an initial stage of MoEnCo's operations and on-going mining activities. However, in accordance with the mine plans, some 50,700 m³ of topsoil was removed for new mining and piled separately for preservation. To prevent losing the topsoil fertility, this topsoil pile, covering 0.4 hectares had underwent biological restoration where seeds of perennial plants and grass were sprinkled over to protect against erosion. MoEnCo carries out its fertile soil conservation in conformity with the MNS 5916 : 2008 standard (Requirements for fertile soil removing and its temporary storage during the earth excavation works)⁴.

Location	2014–2018 (hectares)	2016 (hectares)	2017 (hectares)	2018 (hectares)
Rehabilitated land for topsoil piles protection	13.3	0.5	0.3	0.4
In district centers under Corresponding Protection Program	420	20	20	380
Total	433.3	20.5	20.3	380.4

In addition to the mining operations at Khushuut location, MoEnCo conducts geological prospecting and explorations works in the vicinity. In summer 2018, some drilling works were performed by a professional company hired by MoEnCo. Upon completion of the drilling program in October 2018, the drilling works area underwent technical reclamation and was commissioned to the Darvi soum environmental inspector upon which a formal statement has been issued confirming adequate rehabilitation of the disturbed land.

⁴ Information is available at http://greenassessment.mn/upload/files/20081127_MNS_59162008_%D0%91%D0%B0%D0%B9%D0%B3%D0%B0%D0%BB%D1%8C_%D0%BE%D1%80%D1%87%D0%B8%D0%BD_%D0%93%D0%B0%D0%B7%D0%B0%D1%80_%D1%88%D0%BE%D1%80%D0%BE%D0%BE%D0%BD%D1%8B_%D0%B0%D0%B6%D0%BB%D1%8B%D0%BD_%D2%AF%D0%B5%D0%B4_%D2%AF%D1%80%D0%B6%D0%B8%D0%BB_%D1%88%D0%B8%D0%BC%D1%82_%D1%85%D3%A9%D1%80%D1%81_%D1%85%D1%83%D1%83%D0%BB%D0%B0%D0%BB%D1%82_%D1%85%D0%B0%D0%B4%D0%B3%D0%B0%D0%BB%D0%B0%D0%BB%D1%82.pdf

In 2018, as part of MoEnCo's community responsibility:

- in spring season, we created green strips totaling 3 hectares in the mine vicinity with over 3,000 trees and bushes newly planted and fenced against grazing livestock;
- organized clearing of naturally built sludge along roads and river banks over 51.2 hectares in Uyench soum; and
- carried out technical reclamation (landscape works, re-vegetation, rubbish removal) of 8 hectares of abandoned quarry near the Uyench soum center which was the soum administration's commission.

CORRESPONDING PROTECTION PROGRAM

MoEnCo initiated the "Corresponding Protection" program in 2016 at the recommendation of the Sustainable Mining Land Management Project of United Nations ("UN") Development Programme office in Mongolia, the purpose of which is to offer land reclamation in different areas in a volume corresponding to the size of land used for mining at Khushuut. We also voluntarily take up the obligation of such corresponding restoration in the 2017–2020 Cooperation Agreement signed with the Khovd province Government in August 2017.

The plans for the corresponding protection program are included in our annual Environmental Management Plan and budget allocated for realizing them. Moreover, because MoEnCo intends to fulfill its duties of a responsible corporate citizen and devote its resources for greater environmental rehabilitation, we made a corporate decision to adopt a long term corresponding protection plan which would ensure allocation of annual budgets and better coordination of our greening efforts with the local policies. With technical support of the above UN project, our environmental team prepared a draft of the 2019–2023 Corresponding Protection Plan of MoEnCo. We also organized three sessions (at Khovd province center and Darvi soum center) of public discussions of the draft plan for feedback from the local communities and provincial government.

Measures in the MoEnCo's 2018 "Corresponding Protection" program included (i) planting trees and bushes; (ii) fencing agricultural and gardening land parcels of local residential area as protection against grazing animals; and (iii) landscaping works and greening with grass seeds and local vegetation.

Location	2016–2018	2016	2017	2018
Hectares of land rehabilitated and commissioned under the Corresponding Protection Program	420	20	20	380
No. of districts involved	4	3	3	4
No. of trees planted and nurtured	26,000	7,000	8,000	11,000

Jointly with the Sustainable Mining Land Management Project implemented by the UN office in Ulaanbaatar, MoEnCo organized a training session for local residents involved in our green efforts during which various soil works techniques, watering and tree planning procedures as well as general environmental protection awareness were taught.

We hire the local residents of the 4 neighboring districts only to perform all our revegetation and maintenance works. Total number of the hired local residents has been over 50. Some 111 hectares of private land parcels in Darvi soum which MoEnCo helped to fence out in 2018 against grazing domestic animals, are now being used by households for crops growing to support their livelihoods.

WATER USE MANAGEMENT AND QUALITY MONITORING

Water use management is a critical part of the MoEnCo's environmental management. The need for sustainable water management and water quality monitoring within the mining industry is critical in Mongolia due to scarcity of water and the semi-arid climate. MoEnCo takes this necessity seriously and continuously improves its water management efficiency through various management channels. For example,

- No use of fresh water in the mining operations. Khushuut mine uses water primarily for dust suppression, employees' needs at the camp, greening and nurturing trees and other vegetation. Except for the camp use, we only use waste water that naturally builds up at the bottom (mainly due to snow and ice melting with warmer seasons) of Khushuut mine pit.
- Obtaining permits for use of (i) fresh water and (ii) waste water in accordance with the Water Law, Water Fees Law, Minerals Law and other relevant statutes. The water use permit is sought from:
 - Khovd province Environmental Office which issues Water Use Certificate annually upon satisfactorily concluding the water use agreement for the previous year.
 - the Huisiin Gobi — Tsetseg Lake Watershed Area Administration (local water authority) and government-owned Mongol Us company (local water provider) with which MoEnCo enters into the water use agreement annually.
- Preparing the annual Comprehensive Water Use Report and submitting it to the local water provider. The local water provider and the local water authority jointly evaluate and approve the report. Only upon satisfactory acceptance of MoEnCo's reporting of its water conservation and quality monitoring efforts, they will issue a water permit for the subsequent year. MoEnCo's 2018 report was accepted with good level of Government approval in December 2018.
- Planning and performing a set of medium and long-term water management actions at our Khushuut operations that are inserted in the annual Environmental Management Plan and having this Plan approved by the relevant Government agencies. The performance report on the annual Environmental Management Plan is assessed and endorsed by the Ministry of Environment and Tourism, Khovd Government and General Agency for Specialized Inspection.
- Duly paying the water use fees. MoEnCo paid over 56.74 million togrogs (approximately HK\$171,565.07) to the Khovd province budget for the water used.
- Employing professional environmental specialists' team at Khushuut camp including a hydrogeologist.
- Water saving awareness and techniques are one of topics of regular training sessions at Khushuut camp.
- Quarterly submission of the water use volume data and water testing results to the local water administration. Although not mandatory, such data sharing not only allows joint monitoring of MoEnCo's water use but also proves our dedication to transparent local operations.

ENVIRONMENTAL (CONTINUED)

	2016	2017	2018
Amount of fresh water used for residential purpose (m ³)	13,846	13,980	19,255
Amount of water used for industrial purpose: underground water (m ³)	28,878	45,162	59,055
Intensity (m ³ /t)	—	0.032	0.034
drainage water (m ³)	15,976	7,920	23,726
Intensity (m ³ /t)	—	0.0056	0.014
Fresh water use fee	Exempt under the law		
Drainage water fee paid		MNT14 million	MNT31.77million
Technical water use fee paid		MNT4.47 million	MNT24.97 million

MoEnCo's comprehensive monitoring of water quality at Khushuut adheres to the principles of (i) operating without damaging the associated ecosystems, (ii) not affect the use of water by the local residents, (iii) maximizing water recycling and reusing inside the mine boundaries and (iv) minimizing fresh water intake.

In 2018, the Mongolian government carried out the Khushuut water quality assessment in accordance with the requirements and procedures of the relevant laws and standards:

- MoEnCo sent its water samples to the Institute of Geography and Geoecology of Mongolian Academy of Sciences for chemical analysis on a monthly basis. The laboratory reported on a regular basis that the Khushuut water consistently satisfied the Mongolian national water quality standard MNS 900:2005; and
- MoEnCo also sent drinking water samples bi-annually to the laboratory of National Center for Public Health under the Ministry of Health for bacteriological analysis. In both cases, the Center evaluated Khushuut water as "meeting requirements of the residential drinking water standards of Mongolia".

MoEnCo's water quality monitoring data and government assessments have demonstrated that no water sources have been notably affected by water extraction for our current mining operation and there are no significant cases of water depletion. On regular schedules throughout the year, MoEnCo monitors, tests, measures or simply manages different types of water sources in its operations:

- Surface water flow, level and volume monitoring through rivers points measurements.
- Measurements of water flow and volume of natural springs in radius of 4 km around the mine site.
- Underground water level and flow monitoring at 3 special water monitoring boreholes.
- Monitoring the fresh water intake and usage at two existing wells through established meters and 24-hour surveillance through several external and internal cameras. The meter readings and camera recordings were submitted quarterly to the environmental inspector of Darvi district and Huisiin Gobi — Tsetseg Lake Watershed Administration.
- Measuring and using the drainage water produced at the bottom of Khushuut mine pit in warmer seasons. We put this water into use for sprinkling roads for dust suppression, mine and village greenery and irrigation, training against potential fire hazard and for drilling works.
- Getting a permit from the provincial administration and hiring a local contractor to remove and dispose the camp sewage waste at the treatment facility in Khovd center.

As part of MoEnCo's environmental stewardship commitment in the entire Khushuut area, in 2018 MoEnCo performed some preservation and construction works (fencing against grazing domestic and wild animals, creating a small rest area, parking plot, garbage bin placement) at Dugui natural spring located among hills in 22 km from Darvi soum center. Our preservation works were commissioned to the Darvi administration in September 2018 with much appreciation of local herders.

Assurance of Safe Chemicals Handling and Coal Quality

MoEnCo operates a full scale chemical laboratory with qualified technical personnel at the Khuhuut mine site. This lab not only ensures our product's quality prior to shipment, but also carries out some samples testing for pollutants. During the Financial Year, there were 36 professionals working full time at the laboratory and 97 percent of which were locally hired.

Ever since its set up in 2013, MoEnCo's lab has been continuously meeting the minerals quality assurance and safety requirements of the international ISO standards, PRC's GB/T standards and American ASTM standards. In April 2018, the lab got accredited by the Standardization Accreditation Office upon proving our long-term continuous satisfaction of the due requirements of the Mongolian National Accreditation System (MNAS). The lab is the first and only nationally certified chemical laboratory in Khovd province.

In addition to being recognized for its excellent work performance, our lab team has been the MoEnCo's forerunner in devotion to training and development for young professionals and supporting the local community. For example, in 2018, two mining consulting engineers got accredited with the Mongolian Association of Professional and Consulting Engineers the accreditation of which is internationally recognized.

In its handling of chemicals, MoEnCo has been in compliance with the Law of Mongolia on Hazardous Chemical Substances and a number of mandatory guidelines. Also, the Company duly obtains (and pays for) the permits upon satisfying the requirements for use of hazardous chemicals in mining operations and for timely reporting.

It is one of the prime duties of the MoEnCo's lab to ensure the chemical compositions of our coal for export meet the applicable standards. Our export coal are required to be tested and sampled at the Chinese border to ensure the imported goods comply with the applicable Chinese laws and requirements, and if these products are falling short of the standards, import will be rejected. Apart from the conscientious works of our MoEnCo lab, our raw coal imported into China will undergo washing in our washing plant which follows the stringent applicable Chinese laws before delivery to our customers.

WASTE MANAGEMENT

The Group believes a proper waste management is essential for long term environmental sustainability. When enforcing its waste management program, MoEnCo adheres to the following principles: (i) to limit and reduce sources of waste; (ii) to reuse the waste; (iii) to recycle the waste; and (iv) to dispose the waste in environmentally non-distractive manner.

Waste from the Khushuut mine operations requires disposal via a variety of different methods depending on the nature of the waste and availability of suitable facilities at the camp or nearby settlements. MoEnCo's vigorous waste management program has been in compliance with the Mongolian laws pertaining to waste management, occupational safety and hygiene, various regulations and national standards, and is realized through:

- collecting, storing, sorting and separating the waste for recycling or reusing; solid waste including coal ash, hazardous waste, medical waste, etc.;
- burning in the special oven, burying or disposing the various types of waste at different designated sites or transporting and delivering to the specialized provincial treatment and disposal centers;

ENVIRONMENTAL (CONTINUED)

- obtaining due permits, having dumpsite locations specifically selected, approved and regularly inspected by the provincial and district Environmental Office; and
- paying for waste disposal to the local budgets, contracting a specialized and licenced company for transporting and waste disposal.

MoEnCo conducts weekly internal audit of garbage and industrial waste management with aims to ensure that the auditable management system is improved and developed continually. In 2018, MoEnCo's entire waste management system and dumpsites were inspected 2 times by the provincial environmental inspector and the hygienist as part of the mandatory government inspection. The performance had been checked to the inspectors' satisfaction.

Waste Produced	2017	2018
Hazardous waste including medical waste	34 kg	76 kg
Intensity	0.000024 kg/t	0.000044 kg/t
Non-hazardous waste including hard, ash, residential, sewage	1,913.7 t	2,056.2 t
Intensity	0.0014 t/t	0.0012 t/t

Over 68% of hard residential waste was sorted, packaged and handed over to local entrepreneurs and small businesses for recycling. Our waste management efforts extend to MoEnCo's Khushuut road. With ever increasing traffic on our road included Khushuut coal transportation, MoEnCo works with small vendors along our road to ensure the road is trash-free, and increased our cleaning works and trash bin placement at major rest stops.

In 2018, the Khushuut camp landfill was closed and properly reclaimed upon consultations with and under the monitor of the Darvi soum environmental inspector. A new landfill site was assigned in 6 km of the mine camp for which MoEnCo obtained a permit from the soum administration.

USE OF ENERGY RESOURCES

Cost-effective and reliable energy sources are essential to all mining operations. However, MoEnCo's mine site is located among remote hills of far western Khovd province of Mongolia and in 26 km from the nearest settlement of Tsetseg, and thus, it is not connected to the central electricity grid. Because diesel fuel has to be transported over long distances to reach our camp site which creates additional costs; therefore, it is MoEnCo's priority to consume energy in the most efficient way .

In respect of operations, Khushuut mine uses 18 diesel generators while the Uyench site has 3 generators, with capacity ranging from 30 kW to 3000 kW and total capacity of 4,180 kW.

The electricity produced by these generators serve not only Khushuut operations (large equipment repair workshop, workers camp, offices, services, underground water pumping, etc.) but also the nearby Khushuut village with 174 households for free. Entire Khushuut village is provided by our free electricity 24 hours year-round.

	2017	2018
Diesel used for electricity production	1.53 million liters	1.76 million liters
Diesel costs	2.76 billion togrogs (HK\$4.88 million)	3.47 billion togrogs (HK\$10.49 million)
Total electricity consumption	3,323,544 kWh	3,719,314 kWh
Intensity	2.37 kWh/t	2.14 kWh/t

VEHICLES EMISSIONS

With regard to the vehicle emissions, MoEnCo and its transporting contractors are required to follow the requirements and adhere to the procedures under (i) the Transportation Law of Mongolia of 1999, (ii) Regulation of 2010 on Technical Inspection of Vehicles, and other relevant regulations, (iii) National standard MNS 4598:2011 "General requirements and technical conditions for road vehicles", national standard MNS 5013:2009 "Petroleum powered vehicles — maximum permissible levels of toxins in emissions, their composition, measurement methods and procedures", national standard MNS 5014:2009 "Diesel engine vehicles — maximum permissible levels for toxins emissions and measuring method", approved by the Standardization and Measurement Agency.

In the Financial Year, there were 320 (monthly average) heavy duty trucks and other machineries belonging to 25 transportation and haulage companies engaged in hauling, loading, unloading and carrying our coal to foreign and domestic buyers via the Khushuut road.

Trucks for coal transportation have to undergo mandatory annual government inspection, purchase the road use permit and pay for annual emissions taxes at the Khovd province Auto Vehicles and Transportation Center. Only vehicles that met the emissions standards are allowed to obtain a one-year permit for driving. MoEnCo also ensures that all the trucks meet the emissions requirements and having paid for the necessary air pollution charge. All MoEnCo's coal transport agreements include provisions for ensuring the carrier's obligation to comply with the emission standards.

MoEnCo operates 3 check points for the trucks engaged in the Khushuut transportation: (i) at the exit of the Khushuut mine; (ii) MoEnCo's Uyench CBY and processing center which is 224 km from the Khushuut coal mine, and (iii) entrance of the Bulgan border crossing point through which export coal trucks further enter into China.

In addition, MoEnCo maintains the presence of government inspectors 24 hours over 7 days a week during operations at our Uyench site, various government agencies including (i) National Auto Vehicles and Transportation Center, (ii) Mongolian Customs General Administration, and (iii) General Agency for Specialized Inspection. These inspectors not only ensure all trucks meeting the general requirements and technical conditions specified in the standards but also conducting selective daily testing of emissions. These three agencies also perform their thorough inspection duties at Bulgan border crossing point (before heading to PRC) for trucks loaded with coal and returning trucks after their unloading at the Groups' another coal processing facility.

Upon satisfying all requirements imposed on heavy duty trucks, including emissions limits, all trucks for coal export obtain 2 types of certificates under the internationally procedures agreed between China and Mongolia (i) from National Auto Vehicles and Transportation Center in the capital city and subsequently verified by the provincial Center confirming the truck's compliance with the standards; and (ii) from Mongolian Customs General Administration in the capital city and subsequently verified at Bulgan border crossing point allowing expedited and regular border crossing.

In June 2018, all vehicles and moving machineries belonging to MoEnCo, 90 in total, underwent and passed the government emissions tests and safety inspection.

Considering large demand for licenced heavy-duty truck drivers, MoEnCo has agreed with the Khovd province administration to sponsor 100 people to get free training for heavy-duty truck driving and obtain a due level driving licence. MoEnCo has entered into an agreement with existing driving schools in Khovd province center, formulating the training curriculum, helping to obtain training materials and presenting MoEnCo's requirements and expected standard of learning. The training is expected to start in summer 2019 which MoEnCo shall cover full tuition and driving certification costs.

ENVIRONMENTAL (CONTINUED)

ENVIRONMENTAL MANAGEMENT AND PERFORMANCE AT XINJIANG WASHING PLANT

Coal quality control is an indispensable segment in the production process. We built the DPP at the Khushuut mine site for initial processing of coal before export. This could not only eliminate the unwanted rubbles and other materials to enhance our raw coal quality, but also reduce our export transportation costs. The processed coking coal is then washed by our Xinjiang Washing Plant in China and sold as clean coking coal to our customers. Coal washing is a process that is undertaken in a coal washery or coal washing plant where coal is refined or cleaned of impurities. Coal washing involves using water, mechanical techniques and relies on gravity and the difference of density between coal and its impurities which are usually more densely packed due to the fact that they are inorganic.

MAIN FEATURES OF THE XINJIANG WASHING PLANT

Our coal washing plant is located in Qinghe County, Xinjiang, some 30 kilometers from the Xinjiang Takeshiken border. It has a gross area of 200,000 square meters, and comprises the main plant and production area, the raw coal yard, and the office and living quarters. The main plant and production areas include clean coal bunker, waste rock bunker, preparation workshop, filtration workshop and sedimentation facilities etc. It was commissioned by end of 2014 and the annual washing capacity is 1.5 million tonnes.

COAL STORAGE AND DISPOSAL

After the washing plant received the raw coal from Mongolia, the coal is stored in a raw coal yard of 63,300 square meter surrounded by the dust suppression wall pending for processing. During the clean coal production process, a certain amount of coal gangue is screened out, and the majority of which is used as raw materials for construction while a small amount of it not in use is piled up temporarily in an interim yard. Clean coal is produced after the raw coal has gone through various mechanical screening, filtering and washing processes. Clean coal is then temporarily stored in the clean coal yard for delivery to our customers.

ENERGY CONSUMPTION AND WASTES PRODUCED IN THE PRODUCTION PROCESS

Under the clean coal production process, it involves energy and water consumption and generates solid waste including sludge and garbage. Sewage is produced from flowing water, spraying, flushing and cleaning machines and facilities in the production process. With the sewage treatment system, it forms a closed-circuit circulation for re-use in the washing plant with no discharge to the outside. Therefore, it ensures no harm to the surrounding environment. For domestic sewage, the sewage undergoes waste water treatment before storing in a tank for winter which is used for irrigation in summer. If sewage is produced due to equipment failure or other incidents, it

is stored in the standby thickening tanks to ensure no discharge to the outside to affect the environment. Wastes generated under the coal washing process are hazardous such as coal gangue, coal slime and ash. The table below shows the washing capacity, total amount of major energy and water consumed and hazardous wastes produced during the Financial Year:

	2016	2017	2018
Raw coal for washing (tonnes)	425,098.08	646,546.18	768,958.10
Clean coal production (tonnes)	380,932.68	547,383.84	648,158.00
Electricity consumption (kWh)	4,279,430	4,765,320	5,482,050
Intensity	10.07kWh/t	7.37kWh/t	7.13kWh/t
Water consumption (m ³)	41,408	47,208	76,010
Intensity	0.10m ³ /t	0.07 m ³ /t	0.10m ³ /t
Total hazardous wastes (tonnes)*	88,460	99,380	98,320
Intensity	0.21t/t	0.15t/t	0.13t/t

* Non-hazardous substances produced under the process are negligible.

ENVIRONMENTAL PERFORMANCE

Although there is no statutory annual or periodical inspection for washing plants in China, though, officials from governmental department do visit our washing plant frequently to monitor the environmental performance and review the way of environment protection.

During the Financial Year, neither officially nor spontaneous organized and specified environmental check took place in our washing plant; still, various routine checks were conducted by respective authorities such as Environmental Protection Bureau of Xinjiang Uygur Autonomous Region and the fire brigade. The respective inspectors came to washing plant several times and normally did inspections on emissions standard of air pollutants from boiler and coal yards, solid waste disposal, domestic sewage disposal, sewage treatment system applied in coal washing process and its effectiveness to achieve closed-circuit circulation. There is currently no CO₂ emission conversion formula for electricity consumed by washing plant; therefore, no CO₂ measurement was made on electricity consumption. In general, the environmental performance of the washing plant had been checked to the inspector's satisfaction.

To promote wellbeing of employees and demonstrate social responsibility, the Group has been dedicating resources to employees' benefits and development, and making every effort to operate by adhering to the highest standards of conduct.

EMPLOYMENT PRACTICE

Employees are the key to success of the Group. Hence, the Group takes employees as its valuable assets and recognizes the contributions of each individual employee. The Group is an equal opportunity company and all employees are treated with respect regardless of their age, sex, marital status, pregnancy, family status, disability, race, nationality and religion.

Our remuneration packages to employees are structured to take into account the level and composition of pay and the general market conditions in the respective geographical locations and businesses in which the Group operates. The remuneration policies of the Group are reviewed on a periodic basis.

The Group respects the legitimate rights and interests of all its diverse employees. We adhere to labour laws, employment practices and business ethics of the different locations where we operate. As of 31 March 2019, the Group had a total of 752 employees.

	Hong Kong	China	Mongolia
Headcount	34	223	495
By Gender			
Male	41.2%	78.5%	70.7%
Female	58.8%	21.5%	29.3%
By Nationality			
Chinese (HKSAR)	100%	0.4%	Nil
Chinese (PRC)	Nil	99.6%	4.6%
Mongolian	Nil	Nil	95.2%
Other	Nil	Nil	0.2%
By Type			
Full-time	100%	93.7%	98.2%
Part-time	Nil	6.3%	1.8%

Mongolia enforces stringent labour legislation and standards in line with the best international practices. MoEnCo has strictly complied with all requirements of Mongolian labour regulations. All terms and conditions under labor contracts are consistent with the Labour Law, Occupational Health and Safety Law, Social Insurance Law and other relevant laws.

Throughout the reporting period MoEnCo contributed a significant number of employment at Khushuut operations to Khovd province residents. As of end of March 2019:

	March 2018	March 2019
No. of people working for Khushuut project*	1,574	1,765
Percentage of local hiring	77%	80%
Percentage of people working at the mine site	91%	92%

* Including contractor's employees

In 2018, the provincial labour inspector visited twice at our Khushuut coal mine site as a part of the regular scheduled government assessment. The labour inspector not only scrutinized whether MoEnCo's operations had complied with the labour regulations but also held discussions with our mine and camp workers.

During the reporting period, no complaints related to harassment, discrimination or human rights and grievances relating to benefits and working conditions were recorded at our offices and sites. With regard to some cases of misconduct, each case was referred to a senior manager and resolved under the procedures specified in the MoEnCo's Internal Regulation.

The governors of the three soums from where we operate as well as Khovd province executives visit MoEnCo's site with regular inspections or for attending events or organizing consultations with MoEnCo management, workers and local residents. MoEnCo's employment practices at the mine site have been commonly praised and duly recognized. For example, in 2018, MoEnCo's 6 employees received various government distinctions and awards, 13 people received awards from the notable national level non-government organizations and 2 employees were awarded by the Khovd province Governor.

WELFARE AND BENEFITS

As MoEnCo is the frontline operations of the Group, we pay particular attention to the needs, welfare and benefits to MoEnCo employees. Apart from strictly adhering to the statutory welfare and benefits, MoEnCo looks into the special needs of its employees including additional private insurance coverage for accidents during the mining operations and cash support to workers in need. For example, we offered cash subsidies to over 300 workers to support them to overcome the harsh winter last year; to employees' families as condolence support; to pay and arrange emergency medical treatment for our employees and their family members in exceptional cases. As part of retired engagement incentives, MoEnCo also organized events, gifts and cash payments to elderly workers for retirement from their long dedicated career at MoEnCo and also cash awards to our outstanding employees who received recognitions, awards or showed valuable devotion to our work.

TRAINING AND DEVELOPMENT

Mongolian laws impose a number of obligations on MoEnCo as a mining licence holder, to provide safety and health training to its employees. MoEnCo's comprehensive training program meets the requirements imposed by the relevant Mongolian laws and Regulations on Organizing Training and Examining the Labor Safety approved by the Labour Minister in 2016. MoEnCo offers the following training internally:

- requisite training prescribed by the law: labour safety, occupational disease prevention, mine safety training and first aid course, safety regulations at various operational stages, hygienic requirements;
- additional specified training: proper use of protective equipment, fire prevention, workplace risks assessment, natural emergency response, mine pit traffic safety, coal lab safety procedures, and so on;
- training pertaining to the environmental protection: geographical information system (GIS) programs, simple land rehabilitation techniques suitable for the Khushuut area, environmental works planning and execution, etc.; and
- specific operational instructions: safe operations of various equipment, chemicals handling, fuel charging and discharging, traffic within the mine site, safe parking of heavy-duty trucks, coal sampling techniques, restrictions on access to some designated parts of the mine site and so on.

We offer training sessions free of charge to our staff and the contractors' staff.

	2017	2018
Number of internal safety training topics covered	31	30
number of attendees	4,893	4,665
Total hours of training offered	5,197	6,456.6
Average training hours completed per Khushuut mine site employee	14.8	15.3
Average training hours (including MoEnCo headquarter office staff)	11.2	13.97

Average hours of training completed for each Khushuut mine site employee was 15.3 which is above the mandatory 14 hours of training for a mine site worker required annually under the Labour Minister's decree A\33 of 2016.

In 2018, MoEnCo sent its representatives to various industry conferences, workshops and seminars on labour safety and environmental conservation and management. When organizing training and development activities, MoEnCo collaborates with various professional organizations and certified training institutions. In 2018, joint training sessions were held in collaboration with Khovd province Environmental Monitoring Agency, Khovd office of General Agency for Specialized Inspection, Khovd province Labour Office, Khovd province Builders Association, Mongolian Disaster and Fire Protection Association, and Occupational Safety and Health Management Institute of Mongolia in Ulaanbaatar, Fresh Water Resources Conservation Center, and Radiation Safety Association. The number of external training sessions participated was 8 while the number of MoEnCo staff participation in the external trainings was 77.

LABOUR SAFETY

The health and safety policies of the Group are principally required to, among others, comply with applicable Mongolian legislation and regulations, and exceed those requirements where necessary, in order to maintain a healthy and safe working environment; and to identify, assess, and manage the health and safety risks of our activities in all planning and operational decisions based on appropriate and systematic risk assessment processes.

In 2018, MoEnCo's safety team consisted of 18 experienced full-time specialists working at the mine site. In addition to their regular work ensuring the mine's safe operations, this team conducted bi-monthly or monthly work place safety inspections at 8 important locations throughout 2018. Total number of workplace inspections by the safety team was 105. Lagging and leading indicators are adopted to measure the health and safety performance on a monthly basis. Daily and weekly workplace inspections are conducted by supervisory staff and safety officers to identify potential workplace hazards, assess safety risks, and immediate actions are taken to correct any activity deviated from the policies and procedures.

The occupational safety and health (OSH) team at Khushuut mine site also includes 6 full time and 25 part time OSH managers of MoEnCo's contractors. MoEnCo's safety team regularly organizes meetings and consultations with these OSH managers and offers them additional and more vigorous training for compliance with not only the OSH laws and regulations but also MoEnCo's own safety standards. MoEnCo's contracts with large service providing companies mandatorily include (i) labour safety and compliance provisions and liabilities for safety violations or violations of worker's rights; and (ii) duty to engage a full-time or part-time OSH professional.

A part of MoEnCo's production safety assurance is the annual review of our internal safety instructions against (i) newly adopted or revised national standards if any, (ii) lessons and recommendations after any accidents or challenges that have occurred or being present during the operations, and (iii) requests or proposals from workers, of MoEnCo and contractors alike. In 2018, our safety team reviewed and renewed a number of safety instructions and held on-job demonstration training sessions.

Khushuut Coal Mine	2016	2017	2018
Total MoEnCo's man-hours worked	757,556	952,348	2,671,690
No. of fatalities	0	0	0
No. of lost time (hour)	1	0	1
Injury frequency rate	0.67	0	4.54
Total recordable injury frequency rate	6.69	0	7

Adhering to its obligations under the law, MoEnCo presented its safety and health data to the Mineral Resources and Petroleum Authority of Mongolia in March 2018, as part of the MoEnCo's mining works, environmental and management report. In 2018, the government assessment team from Khovd provincial branch of General Agency for Specialized Inspection, including its occupational safety inspector, visited twice at our Khushuut mine site as part of the regular scheduled mine safety inspection.

In addition to covering all MoEnCo's workers and staff with mandatory Mongolian government social insurance (which includes health insurance, unemployment, old age pension, welfare, and industrial accidents insurance), we additionally subscribe all our workers to the voluntary "employer's liability" insurance under private insurance schemes. Total amount of social insurance premiums paid in 2018 was 1.882 billion togrogs (approximately HK\$5,690,614.42), and total amount of private insurance for MoEnCo's staff was about 55.9 million togrogs (approximately HK\$169,025.16).

Over the last 3 years MoEnCo paid substantial contributions to the government Social Insurance Fund but claimed very insignificant payments for production accident and occupational disease. Therefore, National Social Insurance Council issued “Honorary Distinction” certificate to MoEnCo in 2018. This certificate is also a proof of MoEnCo’s good compliance with the labor safety requirements and of efficiency of the corporate labor safety and prevention program. MoEnCo received the “Honorary Distinction” certificate from the Khovd province Governor in May 2018.

EMERGENCY RESPONSE PROGRAM

Our Khushuut mine site has strong on-site emergency response and mine rescue capability that suit the working environment and associated technical risks. Our emergency response team not only responds to incidents at the mine site but also ensures the community safety by responding to occasional calls from local residents.

A mine emergency response plan is a valuable organizational tool for preparing personnel to respond to a mine emergency and is a requirement under the Mongolian law. MoEnCo prepares the Emergency Response Plan annually and has it approved by the Mine Rescue Office of General Authority for Emergency Readiness of Mongolia. The objectives of this Emergency Response Plan are to (i) identify potential risks and emergency situations at Khushuut mine and effective response to these situations; (ii) establish responsibility levels and support coordination; (iii) minimize the effect of emergencies on the personnel, surrounding communities, property and equipment damage and losses to process that may result from emergencies; (iv) ensure timely communication and cooperation with government and external agencies; and (v) define the role and responsibilities of the emergency response and mine rescue team. The Khushuut mine administration distributes copies of the Emergency Response Plan to all internal units and contractors at the mine site.

	2017	2018
Total hours of training for disaster readiness offered	195	109
No. of calls to incidents at the mine	5	11
No. of calls to incidents on the Khushuut road or in the local community	9	12

In 2018, MoEnCo emergency response team (ERT) consisted of 3 full-time professionals and 21 volunteers who are employees of MoEnCo and its contractors. The team offers 24-hours readiness and emergency response which is well beyond the Disaster Preparedness Law and other relevant laws and regulations require. Our ERT is equipped with the latest communications and tracking systems and fire extinguishing equipment and machines. The team regularly participates in events and training of the Emergency Office and Fire Department of Khovd province and of the relevant agencies. In 2018, the ERT members participated in 3 external training sessions and organized 18 company training sessions including:

- bi-annual comprehensive one-day simulation training on equipment and emergency response techniques. This training is held in a form of a show attended by local residents. They are invited for learning, training and participating in the simulation practice;
- by-monthly one-day training where practice exercises, simulated emergency scenarios and external training are provided to ensure that their skills are maintained; and
- mandatory training on emergency response techniques and procedures are held for all new employees of MoEnCo and its contractors before commencement of work and quarterly for revision.

MoEnCo provides free emergency response to local incidents every time they call for help, and occasional incidents on our Khushuut road. Because MoEnCo operates in remote area with very low and sparse population, our ERT is sometimes called to residential urgent situations in the vicinity of the mine.

It is becoming a tradition to jointly organize an annual regional mine rescue and response competition and training in the neighboring Zavhan province by mining companies of the western region of Mongolia. In May 2018, 5 people of our ERT participated in such event and got the 2nd top place for its outstanding skills performance.

HEALTH SERVICES

Our Khushuut coal mine site has one of the best equipped and modern health centers in the area which is operated by our subcontractor and provides free medical services to (i) MoEnCo employees; (ii) all contractors' employees at the Khushuut mine site and Uyench camp; (iii) local residents of adjacent 3 districts; and (iv) export coal truck drivers on the MoEnCo's Khushuut road. Our Khushuut mine site is located in a remote part of Mongolia among Altai Mountains with very low population density, few settlements and even fewer medical facilities. MoEnCo gives support to local communities by offering free health care services, transporting the sick and pregnant to the provincial hospital and providing aids for accidents, if any, on our Khushuut road.

Number of visits to MoEnCo's health center	2016	2017	2018
Visits/calls by the MoEnCo's employees and contractors' employees	2,238	2,921	4,655
Visits/calls by local residents	245	193	249
of which adults	134	106	180
children	111	87	69
Calls to accidents on Khushuut road	4	5	6

The increased numbers for medical visits in the reporting period, as can be seen on the table above, are proportionally related to the increase in the number of contractor's workers and total man\hour worked (64% increase of the 2018 total man\hours). Responding to such surge of medical visits (both work related and non-work related), MoEnCo's medical team organized a consultative meeting with OSH managers of all contracting companies and provided them with additional training.

Over the period of 6–7 years since MoEnCo established a full service health center at its Khushuut camp (and later expanded to the Uyench location), the outreach, volume and effectiveness of our health services to employees and local communities as well as public health awareness program well exceeds the combined similar indicators for the other private health facilities operating in Khovd province as was recognized by the Khovd province Health Department) in its 2018 medical statistics data report.

In December 2017, the national standard MNS 6673: 2017 on "Organizational Structure and Operational Standards for Health Facility" was renewed and became effective from mid 2018. In relation to this, the Khovd province Health Department representatives visited MoEnCo's health center at Khushuut and Uyench for introducing the new standard requirements. MoEnCo's health center presented its annual report at the Khovd province Health Department in January 2019.

As of the first quarter of 2019, MoEnCo's health team consisted of 3 doctors and 2 nurses who provided free primary health care, medical emergency aid, stabilization, treatment, follow-up observation, first aid training and public health awareness instructions. The in-patient service and medical facilities in our Uyench health centre were improved with new medical equipments in 2018 and such equipments met relevant requirements.

In 2018, our medical team organized 16 training sessions on first aid and occupational injuries prevention attended by 184 MoEnCo's and contractors' workers and 7 sessions on health, wellness and disease prevention attended by 171 workers and local residents.

SOCIAL (CONTINUED)

The occupational safety and health laws of Mongolia require a mining company to periodically screen the health of employees. All MoEnCo employees undertake pre-employment medical examination to ensure that they are fit to perform their jobs safely. Subsequent extensive medical checkup is conducted bi-annually or annually subject to a job position to ensure that no health issues and occupational diseases were contracted as a result of operational activities. In 2018, MoEnCo's 345 workers underwent annual medical checkups at the company's expense. For regular medical examination of our workers, MoEnCo engaged the services from 3 hospitals in 2018, one in capital Ulaanbaatar and two in Khovd province center.

HYGIENIC STANDARDS

We create a healthy and vigorous environment for our employees to ensure their health and enrich their recreational time. In 2018, MoEnCo's 2 camps housed 1,700 people (including our subcontractors' workers) in average throughout the year. Ensuring hygienic standards in a remote mountain location where water is scarce, is a challenge for MoEnCo in terms of resources and logistics. However, continuous meeting of the occupational hygiene requirements is an important part of the MoEnCo's safety programs and planning.

At our Khushuut camp and mine site and well as new Uyench CBY camp, the occupational hygiene is ensured through our team efforts aimed at recognition, evaluation, control and prevention of hazards from work and living arrangements that may result in illness, injury or affect the well-being of our workers, and safeguarding the community at large.

Our occupational safety and health team prepares and enforces annual health and hygiene management plan. The camp hygiene is (i) inspected a number of times throughout the year by the hygienist of the Khovd province of General Agency for Specialized Inspection and (ii) reported to the government as part of MoEnCo's environmental performance report.

In practice, the workplace assessment, inspection, sampling, testing, and regular training of all workers and specific staff, for example, camp canteen cooks, are carried out under the regular schedules for maintaining the due hygiene at the site. MoEnCo's assurance of hygienic standards at the camps are inspected by the Khovd province branch of General Agency for Specialized Inspection.

Well maintained camp has a critical impact on the health and well-being of our employees and their work productivity. As part of our efforts to run an exemplary camp in a remote mountainous location that is safe, pleasant and well suited for living, in 2018 the Khushuut camp organized the following measures, among others:

In 2018, the mine site organized "All Staff Cleaning Weekend" events three times which included cleaning, disinfecting, trash collection and removal not only at the camp but also the nearby Khushuut village and the vicinity of the mine. About 250 people, including the local village residents, participated in each of these community outreach events, and jointly collected and removed 236 kg of trash. In June 2018, MoEnCo hired the Khovd branch of National Center for Zoonotic Disease (http://nczd.gov.mn/?page_id=9291&lang=en) to thoroughly disinfect the camp area. The total area covered 6,898.3m².

Along with Khovd province Labour Office, Khushuut mine site was one of the organizers of the "Open Discussion Event" on youth participation in ensuring labor safety and hygiene culture held in Khovd province center in April 2018.

SUPPLY CHAIN MANAGEMENT

In today's inter-connected world of trade, the materials and products that we order, pass through many hands before reaching the MoEnCo's Khushuut mine. Managing the impacts on materials and products across their whole life cycles, therefore, demands that MoEnCo works together with the suppliers. Such collaborative approach provides opportunity for not only safety of products and timely delivery but also for innovation and cost-saving.

MoEnCo does business only with those companies who share our respect for the environment, law and ethical behavior. All contracts and agreements with contractors and suppliers include MoEnCo's compliance provisions. These requirements cover important issues such as anti-bribery, labour standards strictly enforced by the Mongolian government, workers' health and safety, environmental preservation and rehabilitation schemes, workers' fair pay and hours of work and rest, and mandatory insurance provisions. These government scheme insurance provisions that we require our contractors and suppliers to subscribe their workers include the health insurance, unemployment, old age pension, welfare, and industrial accidents insurance.

It is our intent to deal with contractors and suppliers who have accepted and self-certified against our requirements. All contractors and suppliers, new or current, are assessed in accordance with the requirements regarding ethics, corruption, and labour standards risks prior to working with them.

In March 2019, MoEnCo's Procurement Department organized two training sessions in Khovd province:

- for Khushuut mine procurement managers: explaining MoEnCo's procurement regulation and procedures, and discussing the existing challenges in procurement for the Khushuut mine camp operations in remote far-west of Mongolia and ways to overcome them.
- for existing and potential Khovd suppliers: explaining MoEnCo's requirements for products safety and correct transportation and warehousing, and covering topics in logistics and planning of supply flow.

MoEnCo has started preparation for entering into Master Supply Agreement with existing long-term suppliers whose performance for the past years were satisfactory. MoEnCo believes that the longer term supply agreements will (i) make the schedule of supply more efficient and improve the camp supply logistics, (ii) improve the product safety, (iii) reduce the cash handling and, overall, (iv) help MoEnCo to maintain our existing long-term productive supplier relationships.

ANTI-CORRUPTION MEASURES

The Group is committed to complying with all laws and regulations of the host countries against corruption and unfair business. Our overseas companies take extra measures, if necessary, to prevent bribery wherever we do business.

The Group attaches great importance to transparency and information disclosure in a timely, accurate and complete manner. The Group regularly reports its operations, revenues, taxes, environmental performance and social issues through several channels such as (i) the website of the Company and, ultimately, the Hong Kong Exchanges and Clearing Limited, (ii) Mongolian Government Agencies such as Minerals Resources and Petroleum Authority of Mongolia, Ministry of Environment and Tourism of Mongolia, General Agency for Specialized Inspection, (iii) Khovd province Government, 3 soum administrations where we conduct our mining and coal transporting operations, (iv) MoEnCo's website site (<http://moenco.mn>) and (v) Extractive Industries Transparency Initiative.

SOCIAL (CONTINUED)

MoEnCo's Internal Regulations addresses its commitment to acting with integrity in all its operational activities including issues related to business ethics, avoiding conflicts of interest, anti-bribery and so on. The Internal Regulations emphasize a zero-tolerance approach to bribery and corruption covering the MoEnCo people and third parties acting on our behalf to conform to our internal standards. To the best of MoEnCo's knowledge in the reporting period, no incidents regarding bribery or corruption were recorded or identified in 2018.

To promote good governance, the Group has put in place a whistleblowing policy to assist employees and those to disclose information relevant to any suspected misconduct and/or irregularity affecting the Company or may have been involved in. This policy is intended to protect the whistleblower to report its concerns without fear of victimization, subsequent discrimination or disadvantage. To the best of the Group's knowledge in the reporting period, neither companies within the Group receive any disclosure of information under the whistleblowing policy.

MoEnCo ensures anti-corruption approach and prevention of nepotism through (i) due diligence of potential employees, contractors and suppliers, (ii) dedicated assessment of bidders and their tender proposals offering their services to MoEnCo; (iii) inclusion of anti-bribery provisions in the employment contracts with all MoEnCo workers and managers, and (iv) mandatory anti-bribery provisions in procurement and supply contracts with all MoEnCo's suppliers and contractors.

During the two training sessions organized by the MoEnCo's Procurement Department in Khovd province in March 2019, for Khushuut mine procurement managers and for existing and potential Khovd suppliers, detailed instructions were presented on how to recognise, reduce and detect corrupt behaviour and conflicts of interest in procurement and supply chain, for better awareness of ethical conduct throughout the whole procurement process.

Mutual support between the Company and the community is always the foundation to sustain a business. We continuously support community health and wellness through investment in local community development, creating optimal career opportunities and making donation.

INVESTMENT AND CONTRIBUTION TO THE COMMUNITY AND ITS ECONOMY

In May 2018, MoEnCo got listed 51st in the “Mongolia’s Top-100 Companies” list and received the certificate from Prime Minister of Mongolia. The nomination was made upon evaluating MoEnCo’s outstanding business performance, large number of jobs created in the countryside, and tax payments to the central and provincial budget, among other criteria. We consider this nomination as a fair assessment of MoEnCo’s contribution to the regional economy and well-being of the local people.

MoEnCo invests into the economy and makes contributions to the communities of the region through various channels and at several levels:

Local infrastructure development

Since commissioning of the MoEnCo’s Khushuut road in 2011, the regional border activities have become more active and prosperous as local people are now carrying on their businesses along the Khushuut road. It is the only hard-covered road within 3 neighboring rural districts stretching westward from our Khushuut coal mine to Bulgan border point on the Mongolian side, and Takeshenken border on the PRC side. With our road in service, local residents in Khovd province are given the opportunity to use the asphalted road, without any fees or tolls. Moreover, Khushuut road, located in the arid lands in extreme continental climate and used for heavy duty transportation, required much maintenance throughout the year (snow, ice, sand removal, natural sludge clearing, repairs, upgrades, replacement of road signs, etc.), thus, creating a substantial number of local jobs.

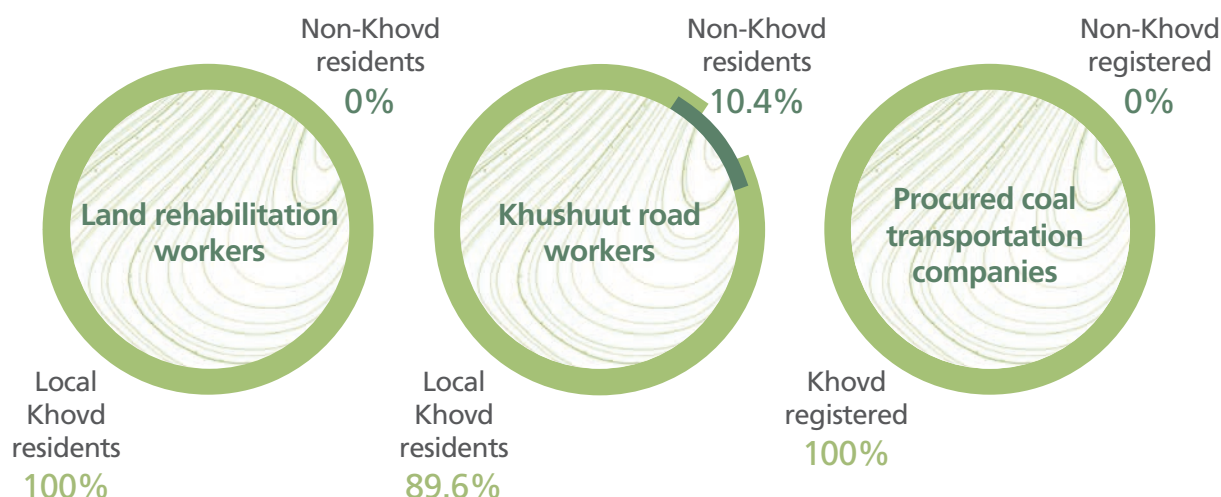
In 2018, out of total MoEnCo’s contribution to the Khushuut Development Fund, 298.3 million togrogs (approximately HK\$901,971.46) was used to build a bridge in Khovd province center, launching construction of 1.1 km long paved road in Tsetseg soum center and other infrastructure construction and repair works.

Creating local employment

By entering into the 2017 Cooperation Agreement with Khovd government, we pledged to increase job opportunities for local citizens and support businesses in Khovd. In 2018, MoEnCo recruited 75–80% of the total workforce from Khovd province (average of the 12 month of 2018) and, as of the first quarter of 2019, around 67% of all the people employed for the Khushuut project were local citizens. These workers enjoy similar benefits as all our employees, they undergo regular full medical checkups and have their social security and health insurance premiums paid by MoEnCo. Moreover, they get on-job training and enjoy the active social life at the camp.

MoEnCo’s annual land rehabilitation works and the Khushuut road repairs and maintenance works only engaged the local residents. Furthermore, all the construction, repairs, landscaping and other types of public works financed by the Khushuut Development Fund have also providing jobs for many local citizens.

COMMUNITY (CONTINUED)



Prioritizing local procurement

Significant support to the local economy comes from MoEnCo's procurement of goods and services. In order to support and strengthen local small and medium sized businesses, local companies in Khovd which meet our procurement requirements are given preference to be our suppliers of petroleum products, water, foodstuff, work uniforms, various services including coal export transportation, and so on. MoEnCo mandatorily includes in its subcontracting agreements with its contractors and suppliers, for example, transportation companies or construction contractors, that they hire the majority of their personnel locally under legitimate labour contracts that meet all legal requirements and with the provisions of compulsory government social and health insurances.

In 2018, MoEnCo hired only local transportation companies for exporting coal. For this purpose, we recruited 25 Khovd transportation companies and paid 39.9 billion togrogs (approximately HK\$120,645,863.57) as transportation fees.

	2015–2016	2017	2018
No. of contractors and suppliers	352	284	149
of which No. of local suppliers and contractors (individuals and businesses)	139	132	92

In 2018, total purchases of goods and services from local businesses and individuals amounted to 47.8 billion togrogs (approximately HK\$144,533,139.82),

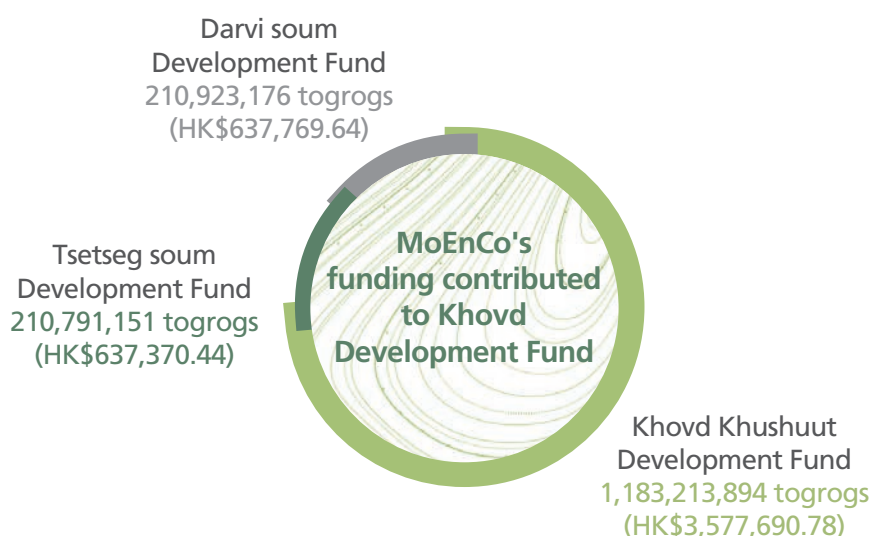
	2016	2017	2018
Amount of locally purchased goods and services (including coal transportation)	16.07 billion togrogs (approximately HK\$51.6 million)	35.7 billion togrogs (approximately HK\$117.3 million)	47.8 billion togrogs (approximately HK\$144.5 million)
of which, percentage of the total procurement	45%	49%	68%

KHUSHUUT DEVELOPMENT FUND

In accordance with the 2017–2020 Cooperation Agreement between MoEnCo and Khovd province government entered in August 2017, MoEnCo established the Khushuut Development Fund jointly with the Khovd Government. In 2018, fulfilling its obligations under this Cooperation Agreement, MoEnCo contributed approximately 1,604.93 million togrogs (approximately HK\$4,852,836.24) to Khovd Development Fund.

	2014–17	2016	2017	2018
MoEnCo's contribution to Khushuut Development Fund	2,599.8 million togrogs (HK\$8.03 million)	329.25 million togrogs (HK\$1.08 million)	665.62 million togrogs (HK\$2.18 million)	1,604.93 million togrogs (HK\$4.85 million)

The Fund consists of (i) provincial Khovd Khushuut Development Fund (ii) Tsetseg soum Development Funds and (iii) Darvi soum Development Funds, and operates under its regulation approved by Khovd Governor. The latter two funds receive funding from MoEnCo for local projects.



Disbursements such as hospitals and medical services, infrastructure construction and repairs and public civil works and urban improvements and etc., from Khovd Khushuut Development Fund were used for funding 39 different projects in 10 soums of Khovd province.

Some highlights of projects financed by the Khushuut Development Fund in 2018:

- Commencement of construction of a hospital in Bugat village, the community hospitals of 10 soums received modern diagnostics and treatment equipment and total of 100 hospital beds, improvements and repairs in 4 soums hospital buildings.
- Public buildings and urban infrastructure repairs and improvements such as repairing and modernizing water supply facilities, bridges, soum Culture Centers, etc.
- Total of 6 public school and kindergarten buildings received funding for repairs, improvements and substructure equipment and machines.

COMMUNITY (CONTINUED)

- Funding the “Multi-ethnic Cultural Heritage” program which organized various cultural events, performances and artistic competitions throughout the year.
- Various training and events in schools, kindergartens and hospitals of 16 soums with theme on “civic participation and government transparency”, “disaster preparedness” and other relevant topics, total of more than 1,000 people were involved.
- Commencement of construction of 1.1 km paved road in Tsetseg soum.

COMMUNITY COMMITMENT

Khushuut village has been at its current location next to our mine site since 1973. Currently, the village has about 650 people residing there in 174 households. With planned expansion of MoEnCo’s mining operations the proximity of the village to the open pit mining activities might become even closer. Therefore, MoEnCo has been discussing a potential relocation of some village residents to another nearby location.

In September 2018, MoEnCo entered into an agreement with the Khovd province Government which specifies some studies and initial preparatory measures for the potential replacement, and duties of the local government and MoEnCo in such relocation effort. A 15-member working group was created headed by the deputy Governor of Khovd, and consisting of representatives of the provincial and soum governments and MoEnCo. A plan of actions was adopted by this working group in September 2018.

A new site for Khushuut village has been assigned by the People’s Assembly of Tsetseg soum to which the Khushuut mine belongs territorially, in 22 km from the current village location and 4.5 km from Tsetseg soum center. Since the designation of a new village site, MoEnCo already build “hashaas” (traditional residential fenced land plots) for 111 households and a water well. Construction of a large kindergarten and children’s center and heating station is on-going. More planned residential infrastructure construction of water wells, sewage facilities, water distribution buildings, etc. will be completed in 2019–2020.

DONATIONS AND SUPPORT

In addition to funding allocated to the Khushuut Development Fund, MoEnCo promoted the local development through donations, free coal distribution, in-kind services, organization of events, and many other forms.

In-kind services

MoEnCo voluntarily supplies Khushuut county households with free water and electricity. For this purpose, we spent 246.63 million togrogs (approximately HK\$745,736.57) in 2018.

MoEnCo’s health center at the mine site provides free outpatient medical care and emergency services for the local people in 3 soums. In 2018, our medical team had treated 249 (of which 69 were children) patients from the local community without charge.

We extend our environmental safeguarding beyond our mining lands. At request of soum administrations, each year MoEnCo invests into restoration and conservation of local natural and cultural sites. We placed new warning boards, and road and location signs throughout Khushuut valley and along Khushuut river and in the past, we had safeguarded 2 ancient burials in the vicinity. In 2018, at the request of Uyench soum administration, we helped to carry some conservation works and developing a historical site called Haruul-Ovoo on the top of Jargalan mountain located in 25 km from the Uyench soum center. Presumably of 17th century, this stone tower which used to service as a shelter for travelers in this isolated mountain range now attracts many hundreds of domestic and foreign tourists every year. However, there are neither safe roads nor direction signs, resulting in increased number of cases tourists get lost, and jeopardizing their lives. MoEnCo arranged placing direction signs, safety warnings and information boards over 25 km leading to this site.

Then, we did some renovation and repair works at rest areas along Khushuut river walking paths and conservation works at Dugui water spring in Darvi soum. We also built fences around 111 hectares of agricultural land in Darvi soum against the domestic livestock grazing nearby for local families and their vegetable gardening.

As agreed with Uyench soum administration, MoEnCo helped to close the waste disposal area of Uyench soum center, clean 51.2 hectares of rubbish and level the area. This work was done jointly with the environmental team of Uyench administration.

Donations

MoEnCo's additional donations (i.e. in addition to the funds paid to the Development Fund) are usually necessitated by an emergency, either due to weather or medical conditions. For example, in 2018, MoEnCo donated to some local herders and families of some of our site workers for purchase of animal feed during the harsh winter and drought in the spring as well as for community emergency preparedness and repair and installation of 2 water wells in the vicinity. Furthermore, MoEnCo offered various gifts and free coal vouchers to some local seniors and local retirees of MoEnCo during celebrations of national holidays. MoEnCo participates in practical education of local children by organizing their group visits (30 children were received in 2018 — from members of the local school's Ecology club, their teachers and 2 environmental inspectors from other soums) to the Khushuut mine and Uyench CBY, contests and painting and writing competitions among Khovd students, and award the winners with cash prizes.

Free coal distribution

MoEnCo distributes free or significantly discounted coal for the local community member and at request of Khovd governor's office to help to overcome harsh winters of Mongolia.

	2014–2018	2016	2017	2018
Tonnes of coal distributed free of charge	4,438	363	2,938	93
Tonnes of discounted coal sold	32,057.3	—	—	18,062.3
No. of local households, social organizations or companies which received discounted coal		—	2,750	3,470
No. of recipients of free coal		—	127	33

Highlights of MoEnCo's coal distribution program:

- In addition to the coal distributed from Khushuut mine (shown in the table above) MoEnCo paid about 63.8 million togrogs (HK\$192,912.43) for purchasing 2,140 tonnes of premium coal from Hotgor coal mine in Jargalant soum of Khovd for distribution among the local citizens there.
- Donated 10 tonnes of coal to the heating station of Khovd province center.
- Provided over 3,000 tonnes of discounted coal to Nomin Shiltgeen LLC of Khovd province center which is piloting the production of pressed briquettes for heating stoves (made of clean coal, such briquettes are believed to be producing significantly less air pollution when burnt).

