

MEC

MONGOLIA ENERGY CORPORATION

蒙古能源有限公司

Incorporated in Bermuda with limited liability

Stock Code: 276

2020 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT



TABLE OF CONTENTS ///

2	About the Report
4	The Company
5	Environmental
29	Social
39	Community



ABOUT THE REPORT

This Environmental, Social and Governance Report ("**Report**" or the "**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 Report have been prepared after taking into account the materiality of sustainability issues arising from the Group's operations.

MEC believes that practicing good Environmental, Social and Governance ("**ESG**") principles is increasingly critical from strategic and global marketing perspectives, and to meet the ongoing expectations of the stakeholders.

OUR VALUES

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



RANSPARENCY



PPORTUNITY



OMMUNITY



CTION



ESPONSIBILITY



UCATION

- 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.

The disclosure of the ESG data in this Report not only provides MEC's investors comprehensive information for evaluating the Group's operations, but also acts as a platform to help us to develop image and trust among all involved stakeholders such as MEC's shareholders, clients, governments of the countries where we operate and the local communities.

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 conditions as best we can in the mining areas.

BOUNDARY AND SCOPE OF THIS REPORT

The Report presents the work that we had done on environmental and social aspects for the financial year, from 1 April 2019 to 31 March, 2020 ("**Financial Year**") and includes the environmental and social responsibility programs taken place at Khushuut mine site and the entire far-western province of Khovd, Mongolia, and at our washing plant in Xinjiang, the People's Republic of China ("**PRC**" or "**China**"). However, 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 bodies in Mongolia and the PRC.

REPORTING GUIDE

Our Report¹ is prepared in accordance with the ESG Reporting Guide under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). 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. For the purpose of ensuring the materiality and consistency of data presented in this Report, and to allow accurate trends of comparison and conclusions, we have been presenting, where possible, the annual data and indicators in the same uniform structure and format as the past reporting years.

¹ 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) an open pit coal mine with approximately 240 hectares of mine-disturbed area;
- (ii) a dry coal processing plant ("**DPP**") with an annual two million tonnes capacity;
- (iii) a 360-people capacity camp at the Khushuut mine;
- (iv) an on-site chemical laboratory, repair workshops for heavy duty mine machineries and trucks, and other technical facilities;
- (v) a 311 km heavy duty paved road from the mine to the nearest border of China at Yarant;
- (vi) the 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 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 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.

MoEnCo has been ranked one of the top 100 Mongolian Companies for three consecutive years in 2017, 2018, and 2019 in Mongolia.

The Group understands while operating as one of the top Mongolian companies, we have a duty to work responsibly and minimize the impact of our operations on the environment while maximizing the good return to all our stakeholders.

ENVIRONMENTAL

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 programs;
- (iv) environmental monitoring; and
- (v) environmental auditing, including (i) internal, (ii) hiring independent third parties and (iii) through government agencies.

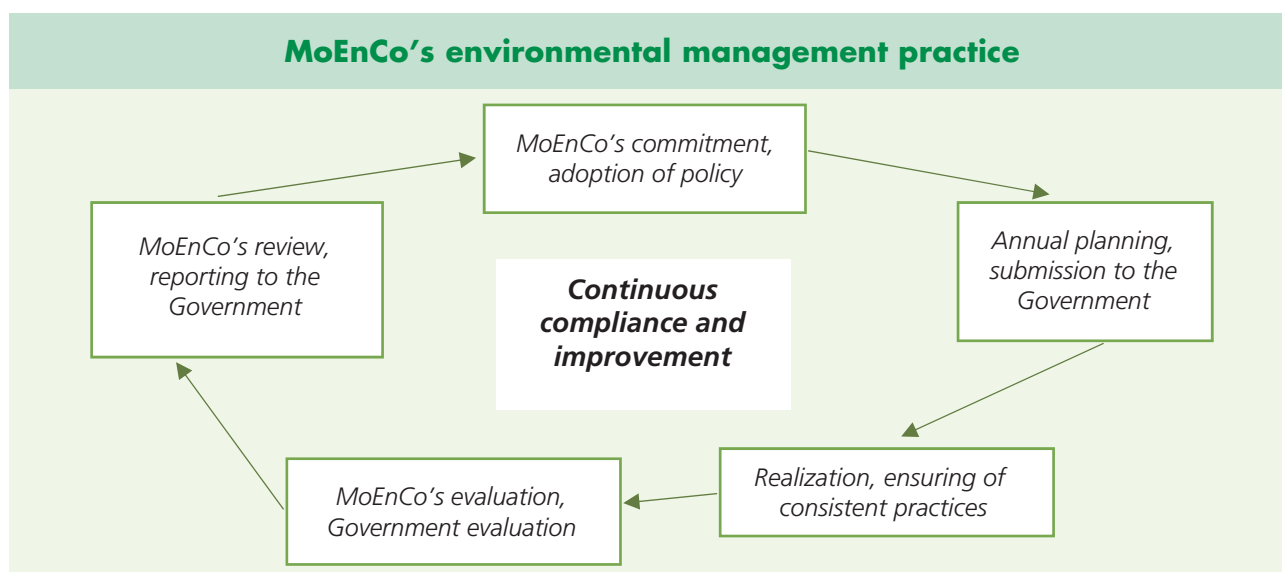


MEC sees the importance of promoting green culture at our workplace and encourages our employees to sustain green efforts in their daily lives. Our Hong Kong head office has participated in the World Green Organization ("WGO") Green Office Awards Labelling Scheme since 2015, which is a programme striving to ensure environment sustainability as set out in the United Nations Sustainable Development Goals (UNSDG). The WGO has also promoted eco-healthy workplace practice in the scheme. 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 six consecutive years. In addition, 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) ///

INTEGRATED ENVIRONMENTAL MANAGEMENT AND REPORTING

Though rich in various mineral resources, Mongolia's scarce water resources, harsh climate and land conditions prone to desertification and erosion. These force the Government to impose tight laws, rigorous regulations, permit application requirements and procedures on environmental conservation and management. To be in consistent compliance with these requirements, MoEnCo adopted the internal environmental management system (EMS), a framework that helps us to achieve our environmental goals through consistent practical realization, review, evaluation, and improvement of the MoEnCo's environmental performance.



MoEnCo's environmental management team oversees the environmental protection performance of its operation under the supervision of the Mine Director and the deputy Health, Safety, Environmental and Quality manager. The team is responsible for the implementation and monitoring of MoEnCo's environmental management plans and programs. It identifies issues and draws up measures to reduce the adverse impacts of our operations on the environment.

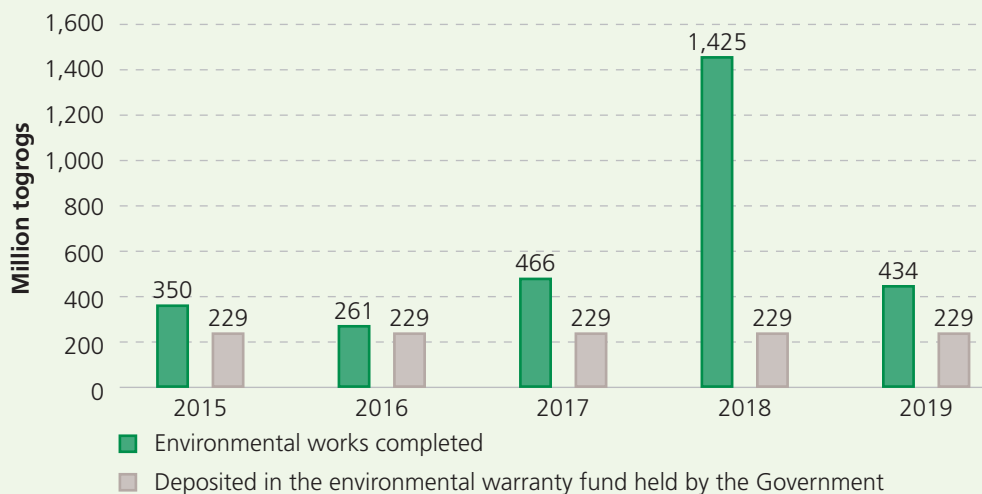
MoEnCo's legal department works closely with the environmental team to ensure that we have complied with the relevant environmental regulations, including but not limited to, the Minerals Law of Mongolia, the Law of Mongolia on Environmental Protection and the Law of Mongolia on Environmental Impact Assessments. The legal department is also responsible for ensuring timely execution and submission of environmental plans and reports to related authorities, and obtaining the requisite licenses and permissions.

Under the above laws, MoEnCo is required to submit an annual environmental management plan for the upcoming year to the Mongolian governmental agencies for approval and also an environmental report setting out the performance of the previous year under the regulatory regime. Our environmental team holds meetings regularly with the specialists 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.

Under our 2019 Environmental Management Plan, we disbursed approximately MNT434.5 million (approximately HK\$1,285,731.19)² on the environmental program.

² In this report, conversion of togrogs into HK\$ is based on the exchange of HK\$1 : MNT337.94. No representation is made that any togrogs can be or could have been converted at the above exchange rate or any other rates.

MoEnCo's environmental scheme budget



According to the General Environmental Protection Law and Minerals Law of Mongolia, a mineral license holder must deposit certain amount of fund in a special warranty account kept by the Ministry of Environment and Tourism of Mongolia as assurance of its environmental reclamation. In 2019, MoEnCo maintained MNT229 million (approximately HK\$677,635.08) in the special warranty account with the Ministry of Environment and Tourism of Mongolia.

In addition to complying with reporting requirements under the laws of Mongolia, MoEnCo reports its corporate governance and environmental and social practices to the Extractive Industries Transparency Initiative, the global standard to promote the open and accountable management of mining companies.

MoEnCo's environmental reporting

In Mongolia

- Ministry of Environment and Tourism of Mongolia
- Khovd office of General Agency for Specialized Inspection
- Khovd province Governor
- Khovd province Governor Assembly local administration of three soums³ where we operate (Tsetseg, Darvi, Uyench of Khovd province)

In Hong Kong

- HKEx through submission of the Company's annual ESG report

³ Soum(s) means the county within a province.

ENVIRONMENTAL (CONTINUED) ////

In 2019, environmental inspectors of the General Agency for Specialized Inspection visited the Khushuut mine site two times under the regular environmental assurance scheme. Moreover, in December, our mine hosted a group of 11 provincial administration executives to assess the performance of MoEnCo's 2019 Environmental Management Plan. The provincial Government assessed MoEnCo's annual environmental performance as "95.4 percent completed" while some of the planned works are still in progress. This satisfactory assessment result has later been confirmed by the Ministry of Environment and Tourism of Mongolia.

AIR QUALITY MONITORING

With the recent serious air pollution crisis in Mongolian capital, Ulaanbaatar, the Government took some critical actions in the past couple of years. Air quality concerns lead to more thorough inspections of mining operations, however remote they may be, in 2018–2020. As a cautious success, improvement of the air quality in the capital city was noted the winter of 2019–2020. This positive result comes not only due to the Government management but also through collaboration and contributions of responsible mining companies, including MoEnCo.

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 MNS 4585:2016 approved by the National Standardization and Measurements Committee of Mongolia in 2016.

Air quality-General technical requirements MNS 4585:2016 ⁴			
Name of the contaminant	Measured in average of	Measurement unit	Permissible amount
Chemical impact			
Sulfur dioxide (SO ₂)	Average of 20 minutes	µg/m ³	450
	Average of 24 hours		50
	Annual average		20
Carbon monoxide (CO)	Average of 20 minutes	µg/m ³	60000
	Average of 1 hour		30000
	Average of 8 hours		10000
Nitrogen dioxide (NO ₂)	Average of 20 minutes	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 minutes	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

⁴ For more information, please visit the website <http://www.agaar.mn/article-view/546>, Air Quality, the Ministry of Environment and Tourism of Mongolia.

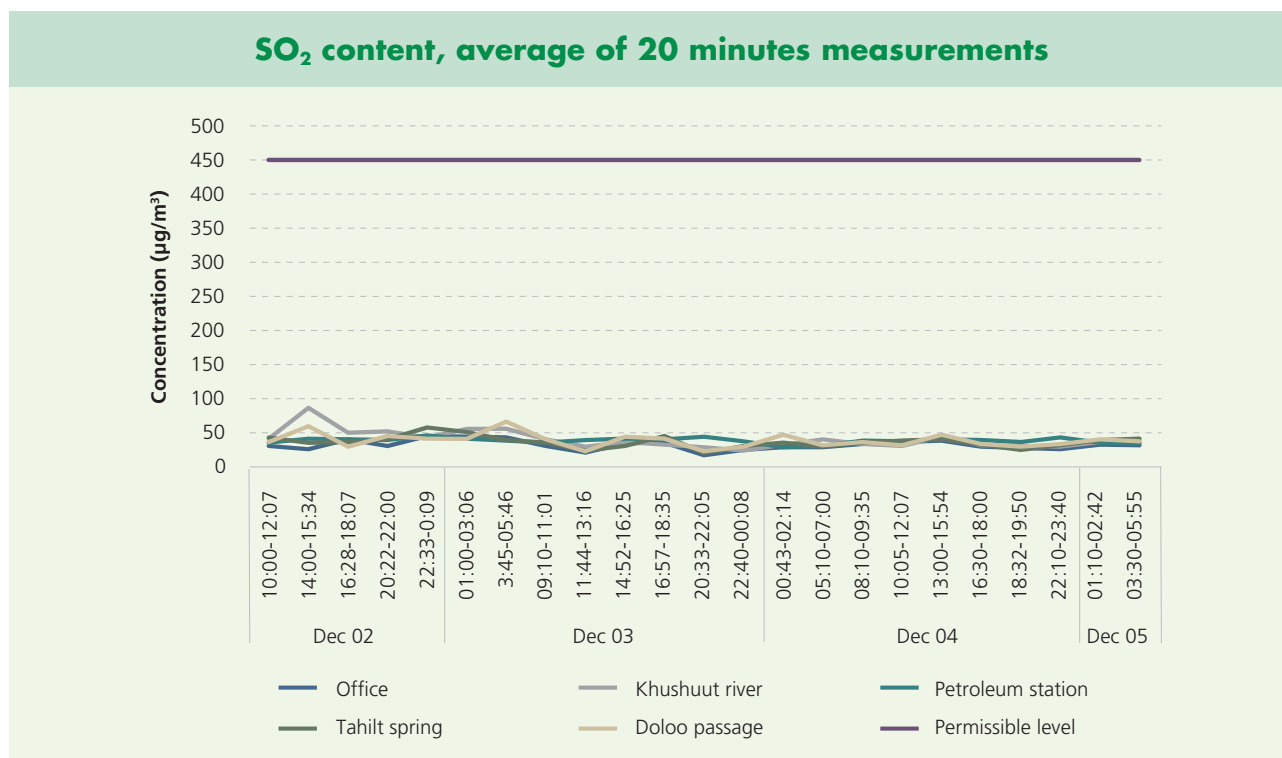
ENVIRONMENTAL (CONTINUED) ///

MoEnCo ensures its compliance with air quality requirements by

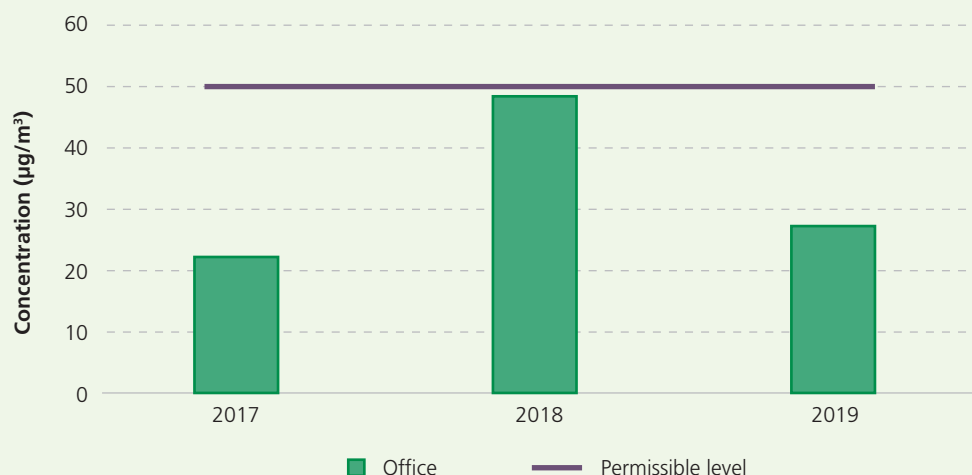
- integrating the air pollution prevention actions as an important part of our environmental management scheme;
- regularly measuring air emissions using own equipment;
- engaging the relevant government institutes under the Ministry of Environment and Tourism of Mongolia and the Mongolian Academy of Science for independent testing and assessment annually;
- periodically hiring a private licensed auditing company for comprehensive audit of MoEnCo's compliance with its environmental obligations and presenting its independent audit report to the central and local governments; and
- conducting measurements and tests jointly with environmental inspectors of Khovd province as part of their inspection and assurance procedure, usually two to three times a year.

MoEnCo engages a government agency, Information and Research Institute of Meteorology, Hydrology and Environment, annually for conducting air sampling and testing in five locations at Khushuut mine site under the approved procedures. The last survey was conducted in early December 2019, when a team of seven professionals and Khovd inspectors sampled and measured SO₂, NO₂, PM₁₀, heavy metals in five locations within five km radius of the mine pit. Method of measurements: (i) two to eight times in 24 hours when the measurement was carried out at the duration of 20 minutes each time over three or four days, and (ii) continuous 24 hours for three days.

The Institute's measurements and report, as an independent government assessment, indicated that MoEnCo's mining operations were in compliance with the Mongolian air quality standard. The major measurements and findings of the Institute's report are as follows.

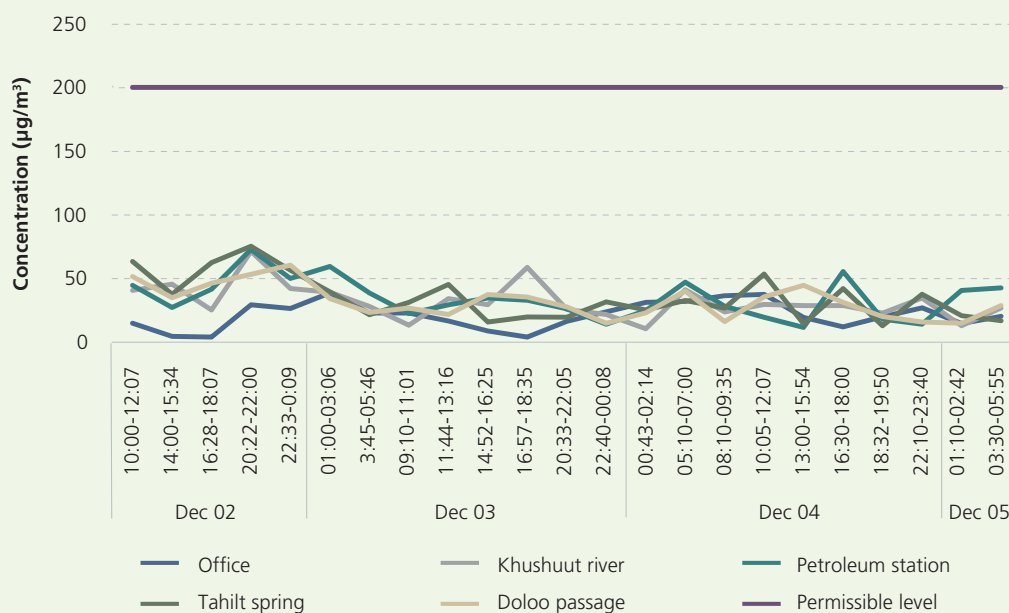


SO₂ content, average of 24-hour measurements in 2017–2019*



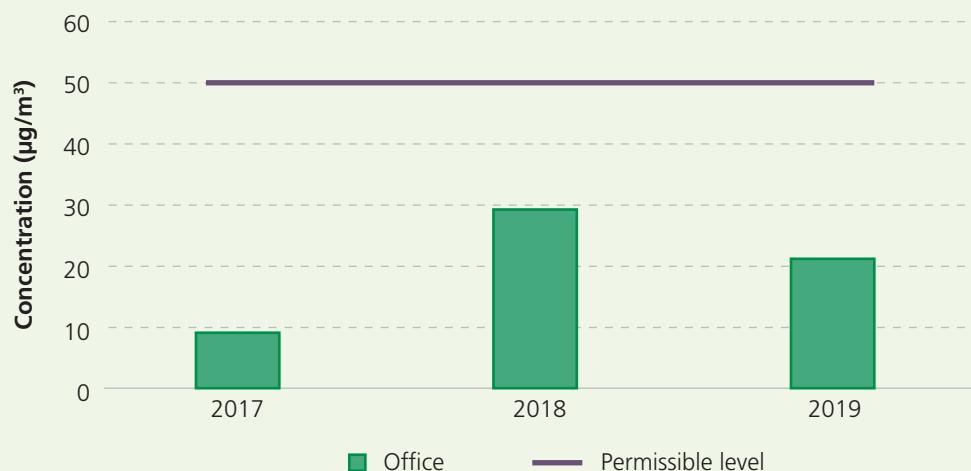
* As the locations of air pollution content measuring point at Khushuut (80–100 points in total) would change every year because of the mining works schedule, mine pit development, etc., some measuring points may get dropped for a couple of years, etc., making similar comparison not feasible. Of these points the government institute researcher chooses “Office” location as (i) the constant location through years, and (ii) a larger number of people working at this location during daytime. Therefore, this location would be most appropriate for comparing annual indicators for the past few years.

NO₂ content, average of 20-minute measurements



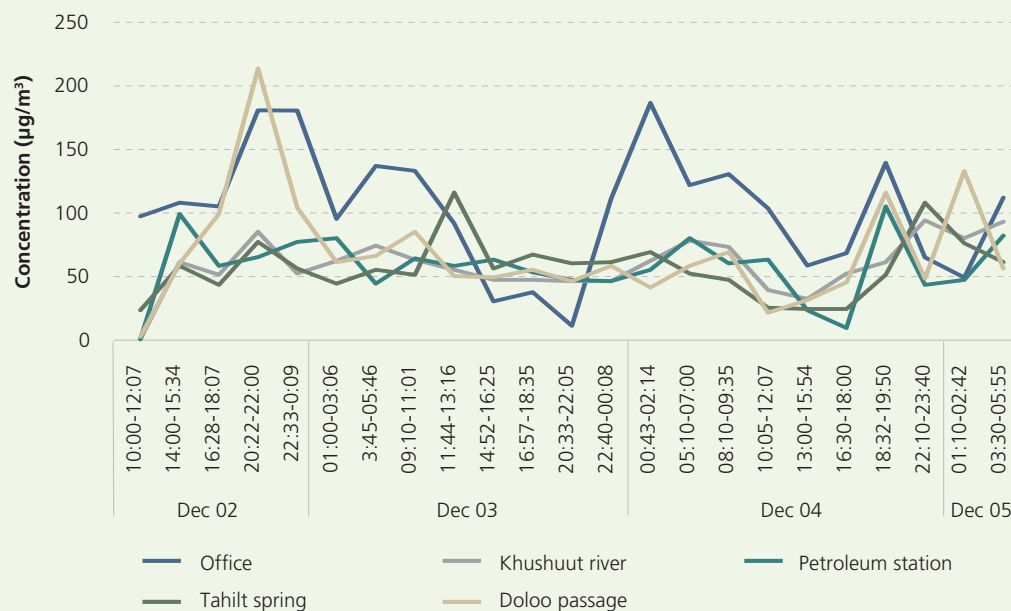
ENVIRONMENTAL (CONTINUED) ///

NO₂ content, average of 24 hours measurements in 2017–2019*



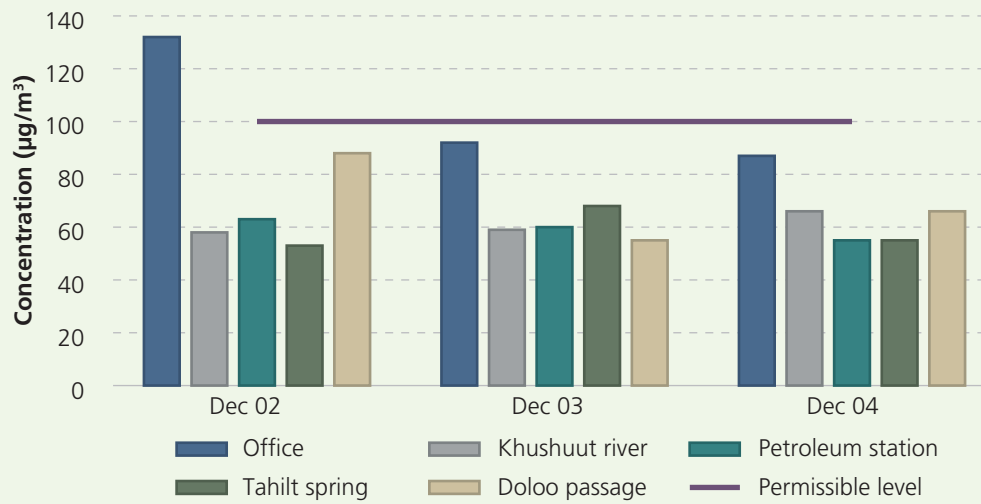
* As the locations of air pollution content measuring point at Khushuut (80–100 points in total) would change every year because of the mining works schedule, mine pit development, etc., some measuring points may get dropped for a couple of years, etc., making similar comparison not feasible. Of these points the government institute researcher chooses “Office” location as (i) the constant location through years, and (ii) a larger number of people working at this location during daytime. Therefore, this location would be most appropriate for comparing annual indicators for the past few years.

PM₁₀ content, average of 20 minutes measurements*

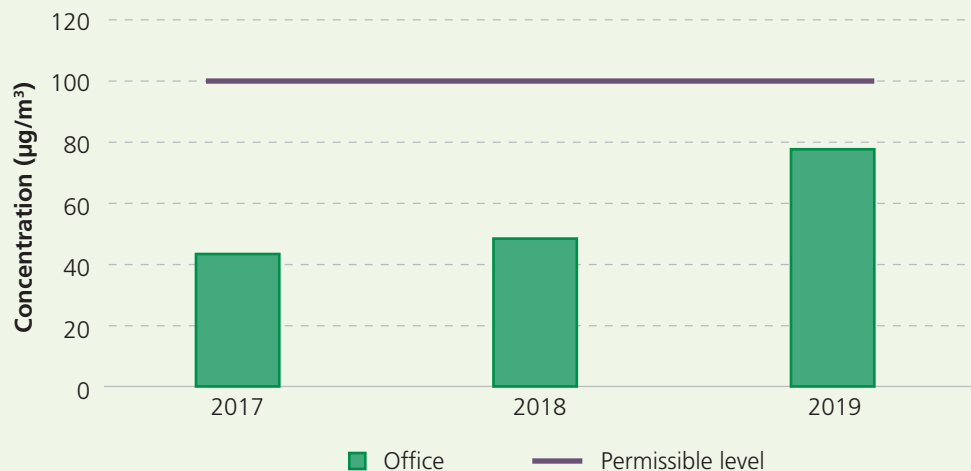


* According to MNS 4585:2016, no permissible level is set.

PM₁₀ content, average of 24 hours



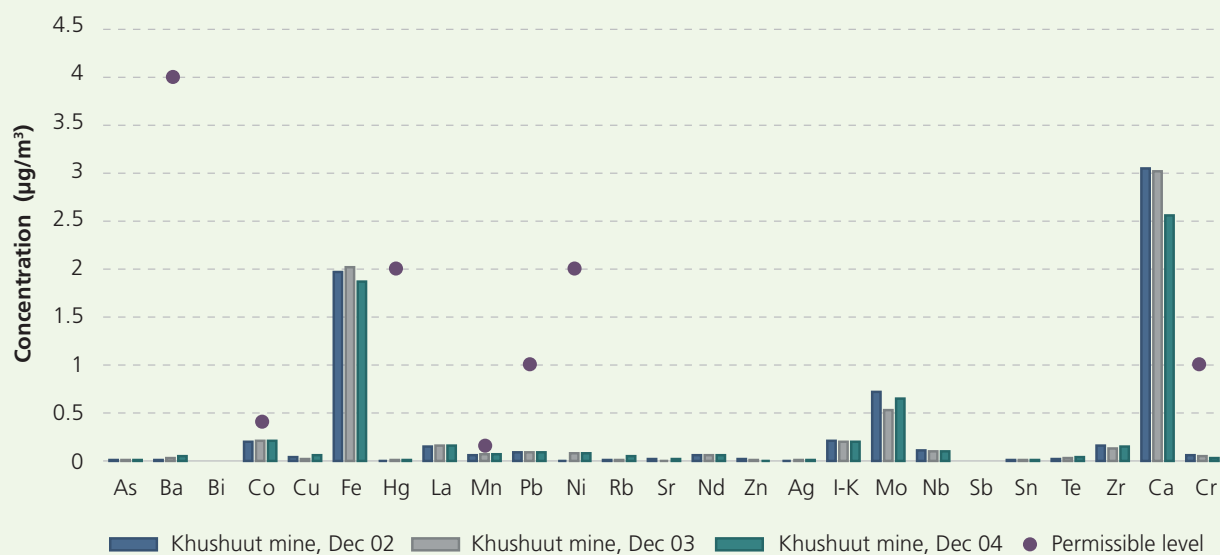
PM₁₀ content, average of 24-hour measurements in 2017–2019*



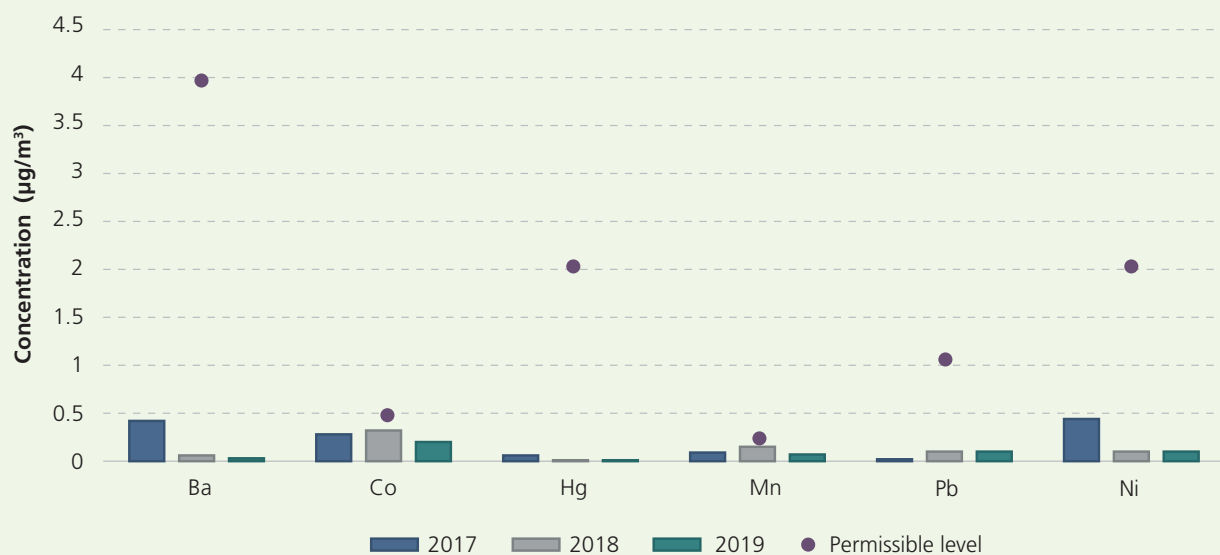
* As the locations of air pollution content measuring point at Khushuut (80–100 points in total) would change every year because of the mining works schedule, mine pit development, etc., some measuring points may get dropped for a couple of years, etc., making similar comparison not feasible. Of these points the government institute researcher chooses "Office" location as (i) the constant location through years, and (ii) a larger number of people working at this location during daytime. Therefore, this location would be most appropriate for comparing annual indicators for the past few years.

ENVIRONMENTAL (CONTINUED) ///

Heavy metal measurements



Heavy metal content, average of 24 hours, measured at office* in 2017–2019

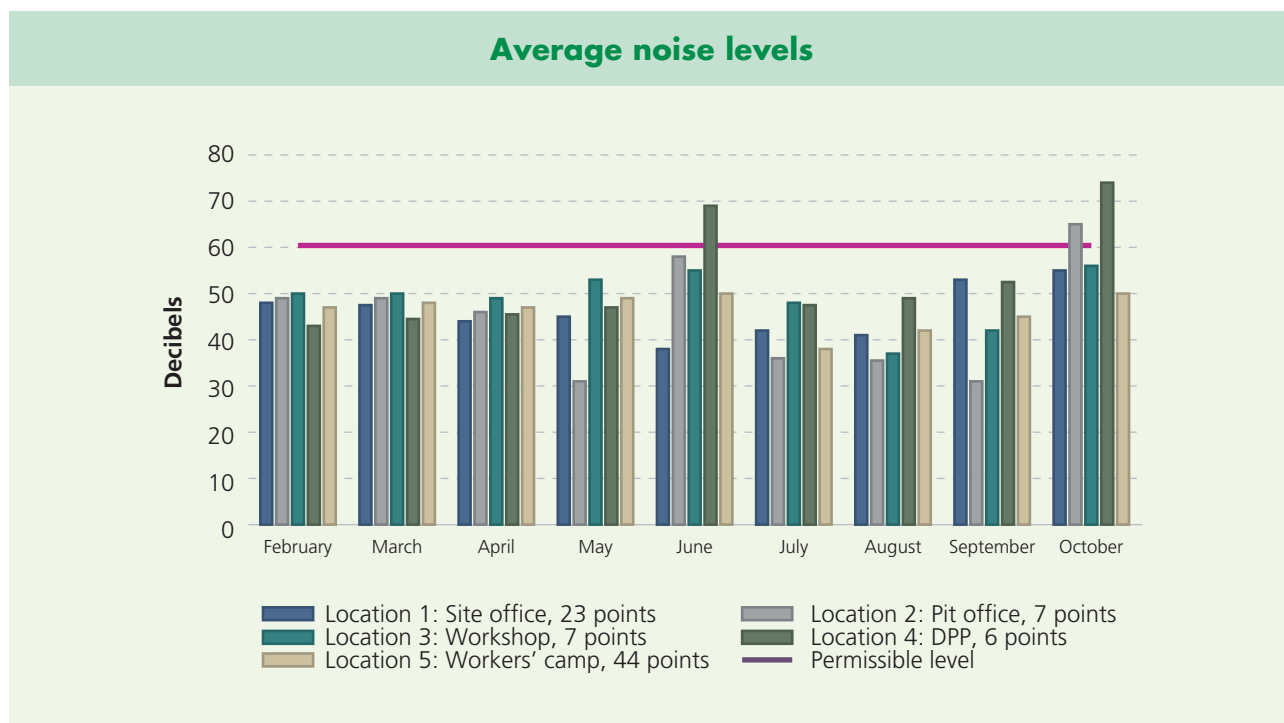


* As the locations of air pollution content measuring point at Khushuut (80–100 points in total) would change every year because of the mining works schedule, mine pit development, etc., some measuring points may get dropped for a couple of years, etc., making similar comparison not feasible. Of these points the government institute researcher chooses "Office" location as (i) the constant location through years, and (ii) a larger number of people working at this location during daytime. Therefore, this location would be most appropriate for comparing annual indicators for the past few years.

The measurements indicate MoEnCo's good compliance with applicable environmental guidelines of Mongolia. We are committed to minimizing and mitigating the mine's operational impact on the local environment and continue to uphold the highest environmental standards in our daily operations.

NOISE CONTROL AND REDUCTION MEASURES

As in most other heavy industries, mining can expose workers to high noise level risks. 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. For example, to ensure safety, MoEnCo workers are strictly required to wear uniform with all the mandatory personal protection equipment, and part of which are ear plugs. Workers in noise intensive areas are required to wear industrial ear plugs. 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 2019, the noise measurements were conducted by using SL-5868P Portable Sound Level Meter and Noise Grader at five different locations at Khushuut mine site, each of which also had 6–44 measurement points. In 2019, the total number of measuring points were 87. The pit office and the DPP are the most machinery-intensive operating areas of the mine for initial coal processing.



ENVIRONMENTAL (CONTINUED) ///

DUST REDUCTION

Mining operations and related activities such as coal hauling, top soil stripping, coal loading and unloading will invariably generate dust. Due to terrestrial specifics of our Khushuut coal mine located among hills, the distances between coal piles are relatively short; therefore, this creates significantly less road dust in comparison with other coal mines of the country.

MoEnCo takes various types of preventive measures at its several production phases to reduce dust by:

- Constructing and maintaining the environmental protection facilities. A special fence for protecting against dust pollution around our DPP and the adjacent customs control area was built and commissioned by MoEnCo in 2014. It is 2,292 meters long and 12–15 meters high.
- Using the “water wall” technology. In 2017–2018, MoEnCo installed the fixed water misting systems, one of the best technologies available today to control dust in the air, at the coal loading and unloading area of the Khushuut mine. Currently four systems operate to create 20–30 meters tall and 35–40 meters wide water walls at Khushuut mine. A new fixed water misting system has also been installed at Uyenich CBY.
- Misting air in the dust intensive areas. In early 2017, MoEnCo piloted a water sprinkler system at our DPP, the most intensive coal handling area. As of early 2018, there were three sprinkler machines (orchard mist blowers and blast sprayers with a tank) with 16 tonnes water spraying capacity working at the site to reduce dust concentration in the air to about 40 percent throughout a day. As the dust reduction and prevention measure have proven effective, MoEnCo now has nine sprinkling machines, fixed and movable, which mist the air around the DPP and other heavy-dust locations.
- Watering the roads and pathways within and adjacent to the mine pit. There are now five vehicles with total capacity of 100 tonnes which uses the mine’s waste water for daily watering the mine pit inner roads and the coal loading and unloading areas for dust reduction.
- Regularly measuring dust concentrations in the air using own equipment. MoEnCo’s environmental team measures fine particle contaminants (PM₁₀, PM_{2.5}) monthly using DUSTTRAK2 equipment at 15 points around the Khushuut mine and reports the results to the camp director.
- Enforcing speed limits when driving on the mine roads. MoEnCo adopted and enforces internal driving rules with 5–30 km/h speed limits for coal hauling trucks on mine roads, and also installed some speed measuring devices on roadways.
- Covering the dirt road surfaces with gravel.
- Making purposed strips of vegetation along the roads close to the nearby village, camp and office buildings and between them and the mine pit, and planting trees and bushes on these strips.

VEHICLE EMISSIONS

Managing vehicle emission and complying with national emission standards during mine operation and long-haul transportation is an important part of the Group's environmental policy.

As of the end of 2019, there were over 500 heavy duty trucks and other machineries belonging to 29 transportation and haulage companies engaged in hauling, loading, unloading and carrying our coal to our customers.

With regard to the vehicle emission, MoEnCo and its transporting contractors are required to operate in accordance with the requirements and adhere to the procedures as follows:

- Transportation Law of Mongolia of 1999, Regulation of 2010 on Technical Inspection of Vehicles, and other relevant regulations; and
- 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.

All trucks for coal transportation have to undergo mandatory inspection imposed by the government, purchase the road use permit and pay annual emission taxes at the Khovd province Auto Vehicles and Transportation Center. Only vehicles that met the emission standards are allowed to obtain a one-year permit for driving. MoEnCo also ensures that all trucks engaging in coal transportation have been duly inspected, meeting the emission requirements and having obtained the necessary road permits. All MoEnCo's coal transport agreements include provisions ensuring the carrier's obligation to comply with the emission standards.

MoEnCo operates three check points for the trucks engaging in the Khushuut transportation: (i) at the exit of the Khushuut mine; (ii) MoEnCo's Uyench CBY and processing center which is about 224 km from the Khushuut coal mine, and (iii) entrance of the Bulgan border crossing point. In addition, MoEnCo manages to have the presence of government inspectors 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 the returning unloaded trucks.

Upon satisfying all requirements imposed on heavy duty trucks, including emission limits, all trucks for coal export obtain two types of certificates under the international procedures agreed between China and Mongolia:

- from National Auto Vehicles and Transportation Center in the capital city with subsequent verification by the Provincial Center to confirm the truck's compliance with the standards; and
- from Mongolian Customs General Administration in the capital city with subsequently verification at Bulgan border crossing point to allow expeditious and regular border crossing.

ENVIRONMENTAL (CONTINUED) ////

SOIL QUALITY MONITORING

Continuous monitoring and regular testing of the soil quality and content is an important part of MoEnCo's environmental management. Khushuut mine's soil monitoring points were selected in 2012 at the recommendation of the Laboratory of Soil Science of Institute of Geography of Mongolian Academy of Science in the vicinity of the Khushuut mine.

In 2019, sampling of soil had been made in fifteen points near the Khushuut mine and six points in the Uyenich CBY were sampled from the selection points and sent to the Soil Science Laboratory of the Institute of Geography and Geo-ecology of the Mongolian Academy of Sciences for the analysis of (i) basic chemical properties; (ii) mechanical composition; and (iii) heavy metal contents in the soil. In addition to monitoring the quality of soil, the Khushuut mine site environmental team prevents soil contamination by covering the heavy-duty areas of the mine site (diesel generators areas, fuel stations, parts of the repair workshop, mine pit roadways, etc.) with protective layers of sand and gravel.

The 2019 soil analysis results demonstrated that:


- the heavy metal contents of the soil around Khushuut mine were lower than the permissible level set forth in the MNS:5850 standard, i.e. soil around Khushuut mine had no heavy metals pollution;
- the soil's alkalinity, humus content, phosphorus and average potassium levels were within the permissible level and no notable change in the soil composition year-to-year; and
- there was no overall measurable chemical composition or physical characteristics change of soil in the vicinity of Khushuut mine which could be attributed to the mine operations.

REHABILITATION OF MINE DISTURBED AREAS

With the ever expanding Khushuut mining operations, the size of mine disturbed area has also been increasing every year. This is the feature reflected in our annual Environmental Management Plans accordingly. The land rehabilitation program must comply with:

- the Land Law, Law on Subsoils, and Minerals Law; and
- a number of national standards pertaining to land assessment, degradation prevention, topsoil preservation and mining land rehabilitation works.

We make some remote parts of the disturbed lands available to local herders for grazing their domestic livestock. Our environmental team at the camp ensures sound rehabilitation including (i) leveling and contouring, (ii) reshaping, (iii) preserving the fertile topsoil, (iv) re-vegetating through seeding of grass and perennials and planting trees and bushes.



In 2019, no area underwent full geological or biological reclamation within the Khushuut mine's operation fields because of the active stage of MoEnCo's operations and on-going mining activities. However, the 2019 land rehabilitation program involved various types of land and community support works where some of which are statutory (for example, preservation of fertile topsoil) but many of them are voluntary on the part of MoEnCo, representing our environmental stewardship. These included:

- Conservation of the fertile soil pile in conformity with the MNS 5916:2008 standard (Requirements for fertile soil removing and its temporary storage during the earth excavation works). The maintenance of the pile includes sprinkling seeds of perennial plants and grass over to protect against erosion.
- In addition to the mining operations at our Khushuut location, MoEnCo conducts geological prospecting and explorations works in the vicinity for establishing more minerals reserve. In summer 2019, some drilling works were performed by a professional company hired by MoEnCo. Upon completion of the drilling program in September 2019, the drilling works area underwent technical reclamation.

On two occasions, the Khovd environmental inspector inspected MoEnCo's fertile topsoil removal, preservation and storing procedures to ensure topsoil stripping had complied with the national standard MNS 5916:2008 and MoEnCo's 2019 mining works plan approved by Government.

We extend our environmental safeguarding beyond the lands adjacent to Khushuut mine. For example, in 2019, MoEnCo:

- placed (i) a total of 42 new warning boards or replaced those worn-out signs in Uyench, Darvi and Bulgan soum for the protection of domestic and wild grazing animals and (ii) various introductory boards for Sutai Uul State Protected Area;
- built rest areas with facilities for tourists among Haruul Ovoo hills and commissioned them to Uyench soum Governor's Office; and
- in spring 2019, we provided machineries and manpower to help the local community in arranging irrigation of their organic vegetable fields from Khushuut river.

CORRESPONDING PROTECTION PROGRAM

Significant expansion was achieved in MoEnCo's 2019 Corresponding Protection program.

We initiated this program in 2016 with the purpose of offering land reclamation in different areas in a volume corresponding to the size of land used for mining at Khushuut.

ENVIRONMENTAL (CONTINUED) ///

In 2018, MoEnCo prepared the “2019–2023 Corresponding Protection Plan” through the Sustainable Mining Land Management in Western Mongolia Project in collaboration with the United Nations Development Programme Office in Mongolia. In early 2019, MoEnCo adopted this Protection Plan which now serves a better instrument for budgeting, assessing and reporting our environmental efforts under the Corresponding Protection Program. In October 2019, the working group consisting of representatives of Ministry of Environment and Tourism of Mongolia, Mongolia office of The Nature Conservancy (a charitable global environmental organization, www.nature.org), Khovd province office of General Agency for Specialized Inspection and Khovd Environmental Office came to the Khushuut camp for assessment of the on-going realization of MoEnCo’s Corresponding Protection Program. The group concluded that significant efforts had been made under our Corresponding Protection Program and expressed its appreciation on behalf of the local communities.

	2016–2019	2017	2018	2019
Hectares of land rehabilitated and commissioned under the Corresponding Protection Program	470	20	380	50
No. of districts involved	4	3	4	4
No. of trees and bushes planted and nurtured	35,000	8,000	11,000	9,000

In addition, MoEnCo took up the obligation of such corresponding restoration in the 2017–2020 Cooperation Agreement signed with the Khovd province Government in August 2017. In the past, MoEnCo’s measures under this program included the following:

- (i) planting and nurturing 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 in the mine vicinity, soum centers, Uyench CBY and along the Khushuut Road,

while in 2019, MoEnCo added the following works:

- (iv) comprehensive biodiversity study in 29,000 hectares of area in Khushuut valley carried out by Davhar Ertunz, a professional research organization. The study involves inventory of local flora and fauna, and identification and recommendations for comprehensive biological rehabilitation as opposed to simple greening works. As MoEnCo realizes that our mining operations have potential impact on the surrounding flora and fauna; therefore, we find it crucial to study the biodiversity of the region where we operate and plan the operations cautiously. In December, 2017, MoEnCo engaged the Soil Science Department of Institute of Geography and Geoecology under Mongolian Academy of Science to conduct a comprehensive study, evaluation of land degradation and vegetation, and its changes in Khushuut mine vicinity. Their report included land assessment under the national standard MNS 5546:2005 with “Methodology of Determining Soil and Vegetation Degradation” and provided recommendations on native plants that could be used for biological rehabilitation of the mine disturbed areas. In 2019, we continued our biodiversity study and protection program by expanding the involved area and the scope of study. The Davhar Ertunz researchers presented their finding to MoEnCo in late 2019. From now on, this report shall be used as a baseline for any biodiversity degradation assessment and restoration works; and

- (v) launching of the long-term beaver protection program involving studying the beaver habitat at the nearby Bulgan river, cleaning its bed and erecting nets over 25 hectares along the river banks to protect the beaver habitat against grazing domestic animals. One of few natural habitats of Mongolian beaver is Bulgan river of Bulgan soum, Khovd province. The program location is 320 km from the Khushuut mine but along our coal export road. Due to increased human activities in the past decades and changes in the local vegetation and river flow patterns caused by the climate change, Bulgan river beaver population has been decreasing. In early 2019, the Bulgan-Uyench watershed administration proposed to MoEnCo to launch the beaver protection program. Planning to continue as long as we operate in the region, MoEnCo expects that this program shall not only support beaver population but also have long term effect on the Bulgan river ecosystem as a whole.

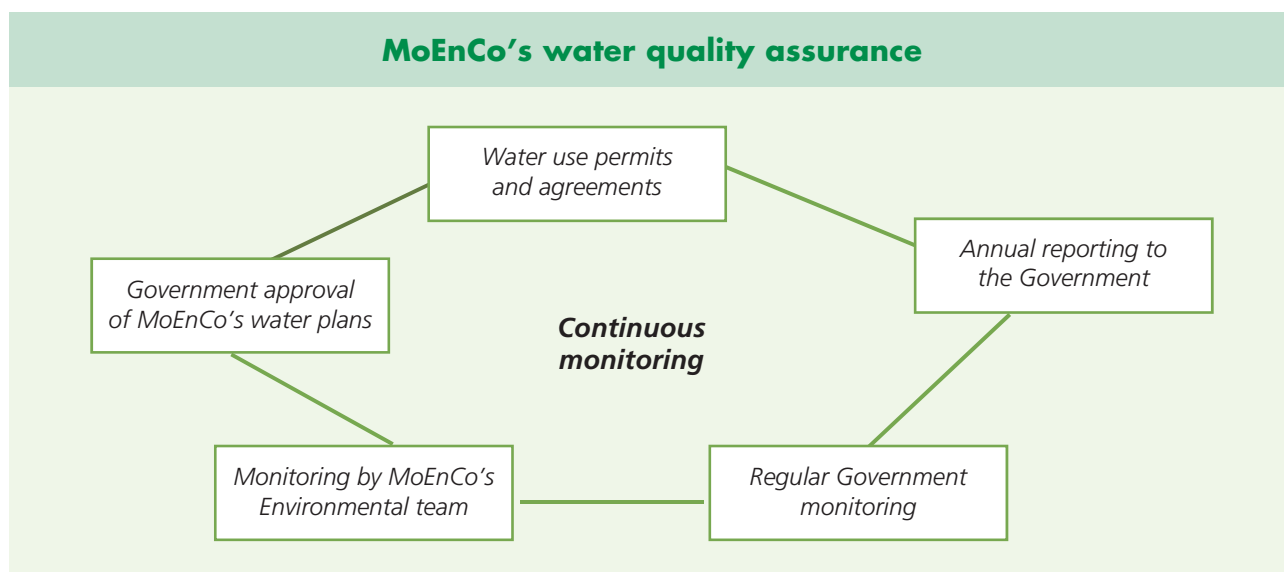
In 2018, the landscaping works in the vicinity of our Uyench CBY included planting 6,000 trees in five hectares for establishing a forest strip against strong winds of the area, fencing against grazing animals and irrigation. We went on with these works in 2019 by continuously watering the green areas over the period of five months from April to September using our misting machines. In addition, Khushuut mine camp donated 2,000 young trees to the Uyench Governor's Office for planting on both sides of the main street of Uyench soum.

All our annual landscaping, revegetation, tree planting and maintenance works are done by (i) our environmental team at the camp engaged in planning, managing and monitoring, (ii) many enthusiastic MoEnCo staff at the camp engaged in tree planting, (iii) local residents temporarily hired for ground preparation or occasional maintenance, and (iv) in 2019, a number of local residents were hired full time for the warm season to perform regular continuous maintenance of green areas.

WATER QUALITY MONITORING

Laws of Mongolia regulating water management and quality assurance are stringent. MoEnCo has been increasingly required to demonstrate innovative and leadership approach to water management at Khushuut. Our water management practices are an important part of the MoEnCo's annual Environmental Management Plan. The water quality monitoring is carried in strict compliance with the requirements of the Water Law of Mongolia, other relevant laws and regulations as well as a number of national standards pertaining to categories, quality parameters or harmful constituents pertaining to various categories of water (drinking, residential, industrial, waste).

MoEnCo assures the quality and quantity of natural water at the mine area and in its surroundings through various means including:



ENVIRONMENTAL (CONTINUED) ///

- *Permits and agreements:* the water use permit for Khushuut mine is issued by Huisiin Gobi — Tsetseg Lake Watershed Area Administration (local water authority). In respect of the water use in the mine, we have also entered into a water use agreement with Huisiin Gobi — Tsetseg Lake Watershed Area Administration which is a government-owned company. In 2019, MoEnCo paid approximately MNT28.8 million (HK\$85,222.23) to the Khovd province budget for the water used.
- *Annual reporting to the Government:* MoEnCo prepares annual Comprehensive Water Use Report and submits to its water provider, the government-owned Mongol Us company. This company 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 2019 report was "accepted with satisfaction" in December 2019.
- *Government approval of MoEnCo's water plans:* 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 of Mongolia, Khovd Government and General Agency for Specialized Inspection.
- *Regular Government monitoring:* In 2019, the Mongolian Government performed the Khushuut water quality assessment in accordance with the requirements and procedures of the relevant laws and standards as follows:
 - (i) MoEnCo sent its water samples to the Institute of Geography and Geoecology of Mongolian Academy of Sciences for chemical analysis on a monthly basis. This laboratory reported that the Khushuut water continuously satisfied the Mongolian national water quality standard MNS 900:2005; and
 - (ii) 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.

Moreover, our Khushuut camp submits its water use volume data and water testing results quarterly 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.

- *Monitoring by MoEnCo's environmental team:* MoEnCo implements a comprehensive natural water monitoring process to allow us to operate without damaging the associated ecosystems and affecting the use of local water, and a set of medium and long-term water management actions at our Khushuut operations in order to maximize water recycling and reusing inside the mine boundaries and minimize fresh water intake:
 - (i) surface water flow, level and volume monitoring: rivers measurements are taken weekly in three locations;
 - (ii) measurements of water flow and volume of natural springs are made at 12 natural springs in radius of four km around the mine site, measurements taken weekly;
 - (iii) underground water level and flow monitoring at three special water monitoring boreholes, measurements taken every week; and
 - (iv) monitoring of 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 and Huisiin Gobi — Tsetseg Lake Watershed Administration.

MoEnCo's water quality monitoring data and government assessments in 2019 have demonstrated that no water sources have been significantly affected by water extraction for our current mining operation and there are no significant cases of water depletion. The Government laboratories evaluated Khushuut water as "meeting requirements of the residential drinking water standards of Mongolia".

	2016	2017	2018	2019
Amount of fresh water used for residential purpose (m ³):	13,846	13,980	19,255	14,637
Amount of water used for industrial purpose:				
underground water (m ³)	28,878	45,162	59,055	74,594
intensity (m ³ /t)	—	0.032	0.034	0.035
drainage water (m ³)	15,976	7,920	23,726	20,882
intensity (m ³ /t)	—	0.0056	0.014	0.010

In warmer seasons of the year, the pit of Khushuut coal mine occasionally produces some underground water drainage. 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. MoEnCo has duly paid for the use of this water.

Complying with the legal requirements and to match the mining works expansion, in 2019, MoEnCo conducted a number of hydrogeological studies jointly with Khushuut's water provider, the government-owned Mongol Us company. The reports of these studies have been duly submitted to the Khovd province Environmental Office and the Tsetseg Lake Watershed Area Administration, local water authority.

Notable part of the Relocation Program of Khushuut bag⁵ carried out by MoEnCo in 2018–2019 has been the solution of water supply challenge at the Zuun hooloy location in Tsetseg soum given the scarcity of water in the region. These funded works included:

- (i) In earlier years, MoEnCo carried out some water prospecting and exploration for identifying possible new locations.
- (ii) After the new Zuun hooloy location has been formally approved for the Khushuut bag, additional water related studies have been carried out as part of the Land State Assessment required under the Land Law.
- (iii) MoEnCo duly obtained the permit from Huisiin Gobi — Tsetseg Lake Watershed Area Administration (local water authority) for drilling a fresh water borehole for consumption of the new Khushuut village residents.
- (iv) In addition, MoEnCo built the new village's water supply system, two water distribution stations, sewage treatment plant as well as the village bathhouse and a kindergarten with central water supply. All these facilities were completed and handed over to the state acceptance commission in 2019 and early 2020.

⁵ Bag(s) means the smallest territorial unit within a soum.

ENVIRONMENTAL (CONTINUED) ///

ENERGY CONSUMPTION

As our mine site is located among remote hills of far western Khovd province of Mongolia and some 26 km from the nearest settlement of Tsetseg, our mine was not connected to the central or regional electricity grid. Although few years ago the Government installed the electricity transmission line in the vicinity of Khushuut mine, the power capacity supplied through the line was weak. With improved power supply in the regional electricity network, MoEnCo has been able to connect its camp and office facilities (i.e. residential consumption) to the regional centralized power supply since November 2019, allowing us to reduce diesel consumption and save some operation costs. MoEnCo's further intention is to get centralized power connection for its production facilities (i.e. manufacturing consumption) at Khushuut mine such as the treatment plant and large machinery repair workshop.

- As of the first quarter of 2020, the total energy production capacity of MoEnCo was 4,280 kW including: electricity sub-plant of 630 kW/h and 450 m power line installed in 2019; and
- 18 diesel generators at Khushuut camp and three at Uyench CBY with capacity ranging from 30 kW to 3,000 kW.

	2017	2018	2019
Diesel used for electricity production	1.53 million liters	1.76 million liters	2.24 million liters
Intensity	—	—	1.06 kWh/t
Electricity purchased from the provincial grid	—	—	364,464.80 kW/h
Intensity	—	—	0.17 kWh/t
Total electricity consumption	3,323,544 kWh	3,719,314 kWh	3,985,400 kWh
Intensity	2.37 kWh/t	2.14 kWh/t	1.89 kWh/t

In late 2019, MoEnCo provided electricity, through its generators, to entire Khushuut village for free 24 hours year-round until the Khushuut bag was relocated to its new Zuun hooloy location. At the bag's new location, MoEnCo offered financial support by advancing loan to the Khovd province government for construction of the electricity power plant.

INTEGRATED WASTE AND SEWAGE MANAGEMENT AT THE CAMP

MoEnCo's vigorous waste management program has complied with the Mongolian laws pertaining to waste management, occupational safety and hygiene, various regulations and national standards, and is realized through a variety of different methods depending on the nature of the waste and availability of suitable recycling or disposing facilities at the camp or nearby settlements.

MoEnCo's waste and sewage management



MoEnCo's integrated waste management includes:

- (i) obtaining waste permits for dumpsites, disposal, and transportation. MoEnCo obtains its waste permits from Darvi soum administration annually;
- (ii) paying for waste disposal to the local budgets, including for permits and land use for the camp's landfill;
- (iii) contracting a local specialized and licensed company for transporting and disposal of the camp sewage in the centralized urban treatment facility in Jargalant city (Khovd province center);
- (iv) collecting, storing, sorting and separating the waste for disposal in compliance with the regulations (solid waste, hazardous waste, medical waste, etc.) and for recycling or reusing (solid waste). In 2019, over two-thirds of hard residential waste was sorted, packaged and handed over to local entrepreneurs and small businesses for recycling;
- (v) burning in the special oven (incinerator) the types of waste disposal which are potentially harmful to the environment including used machinery oil;
- (vi) burying or disposing the various types of waste at the camp's landfill;
- (vii) having the dumpsite locations specifically selected and approved by the local government. For example, with our Khushuut camp operating at its current location over ten years and with ever increasing camp population. In 2019, MoEnCo got a permit to set up a sewage landfill instead of using previous method of transporting the sewage to the urban treatment center 230 km away. The location for the new dumpsite was professionally selected after prospecting its suitability for potentially least impact on the environment and was approved by the Darvi soum government which issued a statement about the feasibility of the new sewage landfill; and
- (viii) having the camp's landfill regularly inspected by the provincial and district Environmental Office. In 2019, MoEnCo's entire waste management system and dumpsites had been inspected two times by the provincial environmental inspector and the hygienist visiting our Khushuut mine site as part of the mandatory government inspection.

The Group believes a proper waste management is essential for long term environmental sustainability. Therefore, MoEnCo conducts the internal audit with garbage and industrial waste management with aims to ensure that we have improved and developed the auditable management system continually.

Waste Produced	2017	2018	2019
Hazardous waste including medical waste	34kg	76kg	75.49kg
Intensity	0.000024kg/t	0.000044kg/t	0.000036kg/t
Non-hazardous waste including solid, residential, sewage	1,913.7t	2,056.2t	1,993.4t
Intensity	0.0014t/t	0.0012t/t	0.0009t/t

We aim at producing less waste as much as we could, reducing the negative impacts of the waste through reuse and recycling, and following the principles of waste elimination under the environmentally safe technologies.

As part of MoEnCo's local community support, we funded cleaning, piling and correctly burying the waste collected at the public dumpsite of Darvi soum center (10 hectares of land) and of Tsetseg soum center (42.8 hectares). These works have been organized by MoEnCo's professional environmental team in compliance with the waste management regulations.

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 placed in the raw coal yard of 63,300 square meter surrounded by the dust suppression wall including the newly-built enclosed raw coal bunker where raw coal is mainly stored and pending for processing. During the clean coal production process, a certain amount of coal gangue with sludge is screened out, and the majority of which is used as raw materials for construction and land rehabilitation 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 and greening. 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 non-hazardous* coal gangue and coal slime and hazardous ash. Used industrial oil of hazardous waste is generated by vehicles and forklift which are the means of transport to load and unload of coal during the production process. The table below shows the washing capacity, total amount of major energy and water consumed, hazardous wastes and non-hazardous wastes produced during the Financial Year:

	2016–2017	2017–2018	2018–2019	2019–2020
Raw coal for washing (tonnes)	425,098.08	646,546.18	768,958.10	1,206,390.98
Clean coal production (tonnes)	380,932.68	547,383.84	648,158.00	932,509.51
Electricity consumption (kWh)	4,279,430	4,765,320	5,482,050	8,759,040
Intensity	10.07kWh/t	7.37kWh/t	7.13kWh/t	7.26kWh/t
Water consumption (m ³)	41,408	47,208	76,010	130,810
Intensity	0.10m ³ /t	0.07m ³ /t	0.10m ³ /t	0.11m ³ /t
Total hazardous wastes (tonnes)	88,460 [#]	99,380 [#]	98,320 [#]	4.5
Intensity	0.21t/t	0.15t/t	0.13t/t	0.0000037t/t
Total non-hazardous waste (tonnes)	— [▲]	— [▲]	— [▲]	338,757*
Intensity				0.28t/t

* Adjustment was made due to the coal gangue, and slime are inherent and natural and such wastes would be screened out and collected under our production process for land rehabilitation, such wastes were reverified as non-hazardous wastes according to the advice of the environmental protection department.

Including coal gauge and sludge

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

There is currently no CO₂ emission conversion formula for electricity consumed by washing plant; therefore, no CO₂ measurement was made on electricity consumption.

ENVIRONMENTAL (CONTINUED) ////

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 Qinghe, Altay, Xinjiang Uygur Autonomous, Ministry of Ecology and Environment of the People's Republic of China (阿勒泰地區生態環境局青河縣分局). The respective inspectors came to the washing plant several times and generally did inspections on dust emissions of loading and unloading raw coal; whether sending the large amount of coal gangue for land rehabilitation shortly; if any hazardous wastes disposal procedure was in use. No standard result was released for such inspections. Only directions were given to the washing plant.

In response to the directions, actions to strengthen the environmental protection measures of the washing plant had been taken. These actions included the construction of an enclosed bunker which was equipped with dust reduction system and facilities to house raw coal. The construction of the enclosed raw coal bunker of 23,000 square meter was completed in November 2019 and started to operate in mid-January 2020. Its enclosed structure and the set of facilities are useful to reduce dust emissions under the raw coal loading and unloading process. More than that, we have prepared hazardous wastes management plan and submitted it to relevant authority for registration.

Apart from the reuse of sewage, a team was formed to implement the water saving plan which has started to implement for fostering water conservation culture in the washing plant and also in daily practice.

We further applied advanced technology in the production process in the Financial Year. The scraper conveyor for the residues of coal washing and processing had been technically extended its length and modified it to a scraper conveyor of clean coal sludge. We installed a filter press near the flotation tank as well. The clean coal conveyor belt had also been technically modified and made to combine with the newly bought scraper conveyor. These additional high technological and innovative machineries are able to fasten the clean coal production process. It increases the processing capacity from 285 tonnes of coal to 313 tonnes of coal per hour.

COMPLIANCE WITH LABOUR STANDARDS, OCCUPATIONAL SAFETY ASSURANCE

Mongolia enforces rigorous labour legislation regulating work and rest hours, shifts, work age, working conditions, minimum pay, mandatory health and social insurance, limitations and privileges of work for women, pregnant women, and minors, and many other employment related matters. Given the essential role of the mining industry in Mongolian economy and its absorption of a major chunk of the country's labour force, the labour standards and regulations related to mining and coal transporting are regularly reviewed and updated by the Government. In line with these upgrades, MoEnCo reviews and adheres to its Health and Safety Manual adopted in 2012. In the first quarter of 2020, MoEnCo reviewed and updated the Manual in an effort to prevent COVID-19 outbreak at the mine camp.

MoEnCo has strictly complied with all requirements of the Mongolian labour regulations. All terms and conditions under labour contracts are consistent with the Labour Law, Occupational Health and Safety Law, Social Insurance Law and other relevant laws.

Under the Law on Specialized Inspection and Labor Law, labour inspectors are entitled to carry out scheduled and random inspections at the mine and hold discussions with workers. In case a violation of labour standard is found, the inspector is entitled to take a number of punitive, corrective or preventive measures (up to confiscating assets or suspending operations of a company). In 2019, the labour and occupational safety inspectors of Khovd province and Tsetseg soum officers of the General Agency for Specialized Inspection visited our Khushuut coal mine site two times as part of their regular scheduled assessment sessions. In addition, provincial labour inspectors were parts of three Government teams scrutinizing the Khushuut mine and camp daily practices and the relevant prevention measures in wake of COVID-19 outbreak in the province.

All employees of MoEnCo work under labor contracts consistent with the Labour Law. Moreover, it is also our requirement that all MoEnCo's contractors and suppliers hire their employees in compliance with the relevant labour legislation.

MoEnCo's occupational 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 eight important locations (heavy equipment repair workshop, long-haul trucks, DPP, chemical laboratory, etc.) throughout 2019. Total number of workplace inspections by the safety team was 83.

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.

In 2019, MoEnCo recorded zero (0) fatality, zero (0) occupational diseases and zero (0) lost time.

Khushuut coal mine	2016	2017	2018	2019
Total MoEnCo's man-hours worked	757,556	952,348	2,671,690	3,998,036
No. of fatalities	0	0	0	0
No. of lost time (hour)	1	0	1	0
Injury frequency rate	0.67	0	4.54	1.66
Total recordable injury frequency rate	6.69	0	7	5.01

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 2020, as part of the MoEnCo's mining works, environmental and management report.



SOCIAL (CONTINUED) ////

EMERGENCY RESPONSE

Over the last three years, MoEnCo's emergency response team ("**ERT**"), consisting of 21 full-time professionals and volunteers who are employees of MoEnCo and of our contractors, has been consistently receiving various "Best in Industry" nominations and prizes at regional joint drills and practical training and demonstration sessions. Since the launch of operations at the Khushuut mine site, MoEnCo has devoted considerable attention and resources to mine safety and enhanced MoEnCo's capacity for emergency response and rescue. The ERT is equipped with the latest communications and tracking systems, fire extinguishing equipment, and vehicles.

Under the Disaster Preparedness Law and other relevant laws and regulations, MoEnCo prepares the Disaster Prevention Plan and Disaster Management Plan annually and has them reviewed by the Mine Rescue Office of General Authority for Emergency of Mongolia. Before issuing a statement, representatives of the Mine Rescue Office, including a state inspector, visit Khushuut annually and inspect the camp against disaster readiness.

In 2019, MoEnCo's ERT:

- organized bi-annual comprehensive one-day simulation training on equipment and emergency response techniques. This training was held in a form of a show attended by local residents. They were invited for learning, training and participating in the simulation practice;
- organized by-monthly one-day training for the emergency team members where practice exercises, simulated emergency scenarios and external training were provided to ensure that their skills are continuously maintained;
- had two ERT members got certified in "Emergency Rescue" upon completing the theory and practice training organized by Khovd Office of General Authority for Emergency of Mongolia;
- attended a number of training and demonstration sessions organized by Khovd Office of the Specialized Inspection Agency and by sizable Mongolian mining companies in other regions of the country; and
- held mandatory training on emergency response techniques and procedures for all new employees of MoEnCo and its contractors before commencement of work and quarterly for revision;

The remoteness, low and sparse population of the Khushuut area dictate that our ERT is sometimes called to incidents on the Khushuut road or in the vicinity of the mine. MoEnCo provides free 24-hour emergency response to local incidents as well. In 2019, our team attended emergency call-outs to four residential and steppe fires.

	2017	2018	2019
Total hours of training for disaster readiness offered	195	109	200
No. of calls to incidents at the mine	5	11	8
No. of calls to incidents on the Khushuut road or in the local community	9	12	14

HEALTH SERVICES

Providing efficient medical services at the remote camp among Mongol Altai Mountains is a challenge. However, our Khushuut coal mine site has one of the best equipped and modern health centers in the area which has been operated by our subcontractor Emmed since 2013. Over the past seven years, the reputation of this health center grew tremendously with its medical facility, excellence of services, modern equipment and experience in working under the isolated and distressed conditions.

In addition to being a principal mining operator, we are also entrusted by our contractors to extend the health services and safety assurance to their workers. Therefore, our medical center provides 24/7 free primary health care, medical emergency aid, stabilization, treatment, follow-up observation and training for (i) MoEnCo employees, (ii) all contractors' employees at the mine site, (iii) local residents of the three adjacent districts; and (iv) export coal truck drivers on our Khushuut road.

MoEnCo gives support to local communities by offering free health care services, transporting the sick and pregnant to the provincial hospital with our ambulance and providing aids for accidents, if any, on our Khushuut road.

Number of visits to MoEnCo's medical center	2016	2017	2018	2019
Visits/calls by the MoEnCo's employees and contractors' employees	2,238	2,921	4,655	5,832
Visits/calls by local residents	245	193	249	237
Calls to accidents on Khushuut road	4	5	6	3

In 2019, our medical team organized 21 training sessions on various topics such as first aid, wellness, disease prevention and occupational injuries attended by total of 398 MoEnCo's and contractors' workers and local residents. Together with MoEnCo's occupational health and safety staff, our doctors participate in safety and hygienic inspections of the camp facilities and work areas.

In compliance with the legal requirements, all of our site employees undertake pre-employment medical examination to ensure that they are fit to perform their jobs safely without placing co-workers at risks. 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 MoEnCo's operations.

For regular medical examination of our workers, MoEnCo engaged the services from two hospitals in 2019, one in capital Ulaanbaatar and one in Khovd province center. The number of MoEnCo's workers who underwent annual medical checkups in 2019 was 349 during and prior to employment. Moreover, our mine medical center organized health screening of 24 specific types of camp staff (meals handlers and nurses) at the Khovd Regional Diagnostics Center.

The global outbreak of COVID-19 was a test for MoEnCo which we have been combating with great success. Khushuut mine camp administration together with our medical team has taken the following preventive measures:

- Adhering to instructions of the Khovd province Emergency Commission, Health Department and Infectious Diseases Protection Department of Khovd province, our medical team have developed various enhanced sanitary rules and procedures and complied with by the Khushuut camp residents and specific staff (meal handlers, cleaners, etc.).
- Total of 350 people attended 11 training and demonstration sessions at the camp on topics of application of personal disinfectants and proper use of disposable protective clothing for mine and office workers and long-distance truck drivers.

SOCIAL (CONTINUED) ////

- Preventive measures are being taken to increase the level of preparedness of the mine medical staff to work in emergency situations including stockpiling disposable protective gears and emergency medical supplies at both Khushuut camp and Uyench CBY.
- All workers arriving to the mine for new work shifts are required to take temperature and fill the survey forms.
- And finally, MoEnCo has built six housing units at three different locations (Khushuut mine, Uyench CBY and at the Bulgan border port where our coal transportation trucks stop for customs clearance before travelling further to PRC) for temporarily isolation of individuals with suspected COVID-19. As of March 30, 2020, these housing units, built with utilities and comfort, had not been utilized as no case of COVID-19 was confirmed and reported in the entire country.

Over the period between January to the end of March 2020, MoEnCo's actions taken in COVID-19 prevention have been observed, inspected and assessed at both the camp and Uyench CBY by (i) a group of six relevant officials headed by Deputy Governor of Khovd province; (ii) Head of Khovd province Emergency Commission and accompanying eight representatives of relevant departments of Khovd Government, and (iii) a group of 13 officials headed by the Director of Khovd Office of the Specialized Inspection Agency. These inspection teams not only gave their further recommendations on COVID-19 prevention but also issued a written account with positive assessment of MoEnCo's devotion to protect the health of the people.

ENSURING SANITARY STANDARDS AT KHUSHUUT CAMP

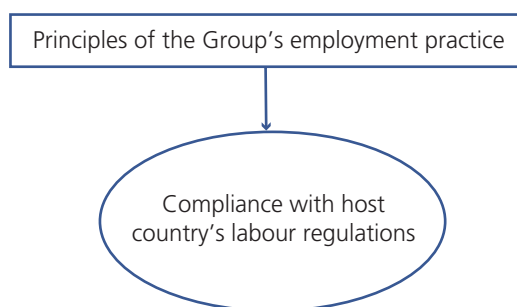
MoEnCo's occupational safety and health program involves much efforts in early recognition, evaluation, control and prevention of hazards from work and living arrangements that may result in illness, injury or affect the well-being of our workers, and safeguarding the community at large. MoEnCo's occupational safety and health team, including a hygienist and the camp medical center's staff, performs weekly or monthly scheduled workplace sanitary assessment, inspection, sampling, testing, and regular training of all workers and specific staff, for example, camp canteen cooks. In addition to our own team, we hired a Khovd company for regular disinfection of various places at the Khushuut camp and Uyench CBY under specific schedules. The total area covered by disinfection was 12,112m² in 2019.

In 2019, the mine organized the "All Staff Cleaning Weekend" three times which included cleaning, disinfection, trash collection and removal not only at the camp but also the nearby Khushuut village and the vicinity. About 600 people participated in these community outreach events.

Continuous meeting of the occupational hygiene requirements is an important part of the MoEnCo's safety programs and planning although ensuring hygienic standards at the camp for more than 1,000 people at times (including our subcontractors' workers) in a remote mountainous location with scarcity of water is a challenge for MoEnCo in terms of resources and logistics. In this context, MoEnCo's response to the global COVID-19 pandemic in early 2020 has proven that we are prepared for potential health risks. Our occupational safety and health team (i) worked in daily collaboration and coordination with the Khovd province Emergency Commission which presented serious requirements pertaining to the camp daily sanitary routine; (ii) enhanced the disinfection and inspection of workplace and living arrangements; (iii) boosted hygienic procedures related to meals handling at the camp and Uyench CBY, and (iv) conducted a number of training and demonstrations on health protection for the camp staff and local villagers.

EMPLOYMENT PRACTICE

MEC has extensive operations in Hong Kong, China and Mongolia. We adhere to labour laws, employment practices and business ethics of these different locations.



We believe that implementing fair employment practices makes good business sense. A diverse workforce and inclusive workplace can support better work performance which ultimately benefits our work in the host country.

As at 31 March 2020, the Group had a total of 613 staff.

	Hong Kong	China	Mongolia
Headcount*	34	235	344
By Gender			
Male	41.2%	78.7%	78.5%
Female	58.8%	21.3%	21.5%
By Nationality			
Chinese (HKSAR)	100%	0.4%	Nil
Chinese (PRC)	Nil	99.6%	8.7%
Mongolian	Nil	Nil	91.3%
Other	Nil	Nil	Nil
By Type			
Full-time	100%	96.7%	98.9%
Part-time	Nil	3.3%	1.1%

* Full time employees and excluding contractors' employees

In line with MoEnCo's community development strategy by providing job opportunities to the areas which we operate in, we support employment of local citizens. We also made a pledge to prioritize local hiring in the Cooperation Agreements reached with Khovd province Government.

SOCIAL (CONTINUED) ///

Khushuut operation

Total number of people working at Khushuut operations (Including part-time, temporary and contractor's employees)	1,756
MoEnCo's employees working at Khushuut operation	
percentage of people working at the mine site	91.3%
percentage of local people hired	74.4%
men and women ratio at the mine site	82/18
men and women ratio at top management position	50/50

Highlights of MoEnCo's diverse and successful employment management in the reporting period:

- salaries and wages for some categories of workers were increased three times (January 2019, July 2019, and January 2020) to match the inflation and updated minimum wage enforced by the Government of Mongolia.
- MoEnCo has duly paid social security and health insurance premiums to all of its employees in accordance with the relevant laws. 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 the private insurance schemes which provide a good level of extra coverage for potential medical expenses and lost wages of our employees, or their beneficiaries, if the employee is injured, sickened or killed by job-related causes. Moreover, it is also our requirement that all MoEnCo's contractors and suppliers to take out, at the minimum, mandatory government social and health insurances for their employees.
- In January, 2018, MoEnCo's administration and Workers Union entered into the Joint Agreement pursuant to the relevant laws of Mongolia. Every year, our administration and the Union review the realization of this Agreement and discuss the joint actions for the upcoming year for fostering greater employees' safety and motivation.
- Over the past decade of the Group's operations in Mongolia, women have a notable role at the management level as well as the rest of the employees of MoEnCo. MoEnCo maintains ties with the Women in Mining Mongolia since its establishment.
- During the reporting period, no complaints related to harassment, discrimination or human rights were recorded at our offices and sites, Workers Union or with the local labour inspectors where any worker has a right to complain as set out in the relevant laws.

MoEnCo's employment practices at the mine site have been commonly praised and duly recognized both by the Government of Mongolia and the mining industry. For example, in 2019, three MoEnCo employees received various government distinctions and awards, three employees received awards from the notable national level industry Associations and two employees were awarded by the Khovd province Governor.

TRAINING AND DEVELOPMENT

Under Mongolian occupational safety, health and labour legislation, a mining license holder is bound by strict obligations to provide regular training on variety of topics and promote professional career of its employees.

We offer training sessions free of charge to our staff and the contractors' staff. We believe a comprehensive training program can enhance individual and organizational capability, as well as reducing the number of injuries, illness, property damage and missed time from work. MoEnCo prepares its annual training and development plan in accordance with the Order number A/33 of the Minister of Labor of February 3, 2016 (Procedure for organizing labor safety training and examinations) and the Mongolian national standard MNS 4969:2000.

Training and personal development in MoEnCo

Types of training organized by MoEnCo	External training	Personal development/events
<ul style="list-style-type: none"> requisite occupational safety and health training prescribed by laws and regulations; a wide range of additional training on specific topics (use of occupational protective gear, mine safety training, first aid course, fire prevention, safety regulations, hygienic requirements, workplace risks assessment, etc.); practical environmental protection training (land rehabilitation techniques suitable for the Khushuut area, local water conservation, etc.); 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, etc.) 	<ul style="list-style-type: none"> sending our staff to paid short training organized by educational institutions and other organizations and companies co-organizing or participating in joint practical drills 	<ul style="list-style-type: none"> co-organizing, sponsoring or participating in various conferences, forums and celebration events allow staff to take leave for continuing education

MoEnCo collaborates with various professional organizations and training institutions in organizing own training or development activities, or attending external training courses. In 2019, for example, MoEnCo collaborated with the Ministry of Mining of Mongolia and the Ministry of Nature, Environmental and Tourism of Mongolia, Hazardous Waste Management Society, Mongolian Association of Chemists and Chemical Engineers and Technologists, Ikh Altai Sustainable Development (regional non-governmental organization), Khovd Governor's Office, Employers Federation, Mongolian Farmers and Flour Producers Union, OSH Academy, Suta Uul State Protected Area Administration, various training institutions as well as Gorno-Altai State University of Russian Federation and Mining Association of Canada. Total number of MoEnCo workers who attended the external training was 294.

SOCIAL (CONTINUED) ///

	2017	2018	2019
Number of internal safety training topics covered	31	30	32
number of attendees	4,893	4,665	7,495
Total academic hours of training offered	5,197	6,457	9,584
Average training hours completed per Khushuut mine site employee	14.8	15.3	15.35
Average training hours (including MoEnCo headquarter office staff)	11.2	13.97	12.87

In 2019, MoEnCo sent its representatives to seven industry conferences, local workshops or personal development events during which MoEnCo's attendees not only engaged in learning and practical training but also presented about MoEnCo's occupational safety and health program and environmental programs. For example, our team actively participated in the "Mining, Environmental Policy, and Laws" forum organized by the Ministry of Mining and Heavy Industries of Mongolia, Ministry of Environment and Tourism of Mongolia and Minerals Resources and Petroleum Authority in Jargalant (Khovd province center) on June 26–27, where we carried much awareness building about MoEnCo's achievements among the regional participants.

As part of MoEnCo's COVID-19 prevention measures at Khushuut camp and the nearby village, in early 2020 the relevant camp staff alone or jointly with representatives of Khovd Specialized Inspection Office held training session and demonstrations on health protection including the camp staff, contractor's workers and local villagers, and printed and distributed various awareness building and warning posters. Some practical training was offered to the specific camp staff (cooks, cleaners, etc.).

ANTI-CORRUPTION POLICY

The Group upholds high standard on promoting anti-corruption, with all its employees and directors required to maintain a high level of business ethics. The Group is committed to preventing, detecting and reporting all types of fraud including bribery and corruption. MEC's Audit Committee has responsibility to review and raise concerns about possible improprieties in financial reporting, internal controls and other matters. No incidents regarding bribery, corruption or unethical behavior were recorded or identified in the Financial Year.

MEC has a whistleblowing policy which is written in its Internal Regulations. This policy aims to provide a formal channel for our employees and stakeholders to report concerns about any suspected misconduct, malpractice or irregularity. This policy is intended to protect the whistleblower to report its concerns without fear of victimization, subsequent discrimination or disadvantage.

MoEnCo's approach to anti-corruption and ethical business conduct is outlined in its Internal Regulations which, among other matters, identifies our obligations, as a company, to comply with all applicable laws and to avoid and report bribery and corruption cases. MoEnCo ensures anti-corruption approach and prevention of nepotism through:

- due diligence of potential employees, contractors and suppliers;
- frequent communications from company management to all staff including those working at Khushuut camp;
- dedicated assessment of bidders and their tender proposals offering their services to MoEnCo; and
- inclusion of anti-bribery provisions in the employment contracts with all MoEnCo workers and managers.

The Group ensures that all of its operations and interactions are conducted in an ethical, honest, and accountable manner and in accordance with all applicable laws and regulations. With thousands of workers, suppliers and contractors, the Group strives to ensure that not only is corruption contrary to our values and responsibility, it may also erode our ties with the communities where we operate.

We expect all employees to identify and raise concerns about unethical business conduct, including potential bribery or corruption issues. The Group maintain strong anti-retaliation policy for those would raise concerns timely and in good faith.

The Group believes that transparency and reporting is a proper tool to ethical business conduct pursuant to the relevant laws and regulations as well as its own policies.

The Group regularly reports its operations, revenues, taxes, environmental performance and social issues through several channels:

- the website of the Group and the HKEx
- Mineral Resources and Petroleum Authority of Mongolia, Ministry of Environment and Tourism of Mongolia
- Khovd province Government
- MoEnCo's social media sites
- Extractive Industries Transparency Initiative (www.eitimongolia.mn)

SUPPLY CHAIN MANAGEMENT

The supply chain management of the Group is organized as a process involving comprehensive planning, implementing and monitoring the everyday operations of the entire cluster of inter-related businesses in Western Mongolia and north-west of the PRC. The complexity of the cross-border business model necessitates strong supply chain management and compliance at both the national (China and Mongolia) levels. The Group's approach to working with contractors and suppliers is based on the principles of fair competition, continuous improvement and focus on ethical conduct.

MoEnCo's supply chain is made up of two main elements:

- inbound supply and procurement of services, materials and products for the Khushuut mine operations, coal transportation and the camp living arrangements;
- outbound supply and sales of coal to MoEnCo's domestic and Chinese coal buyers and for our free and discounted coal distribution program.

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 national governments in Mongolia and China, workers' health and safety, environmental preservation and rehabilitation schemes, workers' fair pay and hours of work and rest, and mandatory insurance provisions. We require our contractors and suppliers to subscribe all these mandatory schemes for their workers including the health insurance, unemployment, old age pension, welfare, and industrial accidents insurance.

SOCIAL (CONTINUED) ////

When selecting our suppliers and contractors, MoEnCo adheres to two main selection criteria:

- priority is given to local, Khovd, companies and individuals interested in working with us; and
- products and services offered by suppliers and contractors should, first of all, satisfy needs and demands of our mine workers and the specifics of MoEnCo's operations in the remote region of Mongolia with harsh climatic and terrestrial conditions.

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.

Significant support to the local economy comes from MoEnCo's procurement of goods and services. As a responsible corporate citizen, MoEnCo continues to put emphasis on community developments and partnerships by giving back to local citizens. We share the benefits with rural communities and generate economic values by creating jobs and procuring local services and goods.

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. In the reporting period, MoEnCo engaged 66 businesses and citizens of Khovd province and purchased services and products worth of MNT67.5 billion (HK\$199,739,598.75).

The Group's supply chain management concentrates on cross-border logistics and chain coordination in China and Mongolia and also focuses on competition orientation at global and regional levels. And at the local level, we strive to do business only with those companies who share our respect for the environment, law and ethical behavior.

COVID-19 pandemic has struck at the core of global value chain hub regions, including China. Since the first quarter of 2020, the Group's supply chain management has closely followed the pandemic prevention measures taken by Governments of PRC and Mongolia. This includes, among other measures, working closely with our transportation companies to organize the coal hauling routes and logistics in a way that minimizes social contacts and complying with heightened sanitary requirements on both sides of the China-Mongolia borders.

COMMUNITY



As a responsible corporate citizen, the Group continues to emphasize on community developments and partnerships by giving back to the people of Mongolia. MoEnCo aims to share benefits with local communities and generate economic values through (i) creating career opportunities, (ii) procuring local goods and services, and (iii) donations and support.

One of the milestones achieved by the Group's Khushuut project was the 2019 relocation of Khushuut village which is a center of bag, a territorial unit in Mongolia. The relocation facilitates an expansion of our mining pits and to minimize the impact to the citizen in the vicinity impacted by our mining operation.

COMMUNITY COMMITMENTS — RELOCATION OF KHUSHUUT VILLAGE

After the years of exploitation of the Khushuut mine, our pits and the main mining operations have gradually encroached the Khushuut village nearby, where most residents have been working for the mine. Proximity to the mine and expansion of our mine operation necessitated a relocation of the village to a more suitable location away from the mine. The Khovd province citizens' Khural (assembly) issued a resolution nominating a locality called "Zuun hooloy" in Tsetseg soum for the new Khushuut bag center in 3 km from the soum center and in 20 km south west from our mine.

For the past few years, MoEnCo management had been negotiating with the Khovd province and Tsetseg soum governments for a new location of the Khushuut bag center and the transition logistics and management. In 2017–2018, we performed some preliminary prospecting of the locations proposed by the soum about their suitability and resources to become a bag center. In September 2018, MoEnCo entered into an agreement with the Khovd province government aiming to conduct more studies and initial preparatory measures for the potential replacement, and specifying the duties of the local governments and MoEnCo in such relocation endeavor. A 15-member working group was created and headed by the deputy Governor of Khovd consisting of representatives of the provincial and soum governments and MoEnCo.

In 2018–2019, MoEnCo performed the environmental impact assessment pursuant to Environmental Impact Assessment Law of Mongolia and the land state assessment required under Land Law through qualified companies. We also hired professional companies to conduct engineering, geological and geo-physical surveys. Relevant Khovd province authorities received the reports of these assessments after which MoEnCo and the provincial and soum government jointly decided on the transition logistics and village construction plans.

For the relocation program, MoEnCo funded the following:

- Relevant surveys and prospecting of land for the new bag location.
- Planning and construction of the entire village for over 400 residents including residential and public buildings and utilities services infrastructure.
- The relocation of 174 households.
- Land clearing at the old location.
- Compensation for those households who had to leave landed property and residential structures at the old Khushuut location.
- Allowance for each family to settle down comfortably in the new village.

COMMUNITY (CONTINUED) ///

As of end of 2019, MoEnCo had built and commissioned the following buildings and facilities at the new Khushuut village: a Cultural Center with 100 seats capacity, a fully equipped and modern kindergarten building for 100 children, a village heating plant (with an industrial boiler, a reserve power generator and external underground pipes), village water supply facility (with few buildings, pumping equipment, two water distribution stations, grounded pipelines between them, and others), a sewage treatment plant of 11 m³ water processing capacity per day, 13 individual houses of different sizes, two residential service center buildings, 111 individually fenced household land lots (30 x 30 meters in size which is larger than land lots which they used to have at the old location) with underground septic tanks, and many other public units in the village. We only hired the local construction companies for all the construction operations.

MoEnCo engaged a property assessment company to assess the total valuation and potential cost estimate for compensation to the village residents' properties. MoEnCo compensated at market value for 437 items of properties in this endeavour.

By November 2019, the relocation of the bag center was completed. MoEnCo now provides free daily bus services between the mine and new village location. To overcome the cold winter, all households received significantly discounted coal from MoEnCo while the village elders received a total of 103 tonnes of premium coal free-of-charge.

The significance of relocating the Khushuut bag to a well-planned new location not only improves quality of life but also provides better local prospects for its residents (as opposed to moving to larger towns for jobs). The relocation contributes the following positive impacts:

- Khushuut residents now have their owned land parcels whereas they had no such right at the former location as the land was of "mining area" category. With a new property ownership entitlement, the residents can now use their lands for various economic purposes.
- The Khushuut bag administration now has its own office building.
- The infrastructure and public utilities at the Khushuut village is now notably more advanced than the neighboring soum centers.

The improved public utilities and community facilities provide more job opportunities than before. This was the first in Mongolia relocation of the entire bag center carried out by a corporation, and the success of responsible mining since 2014.

COOPERATION AGREEMENT WITH KHOVD GOVERNMENT

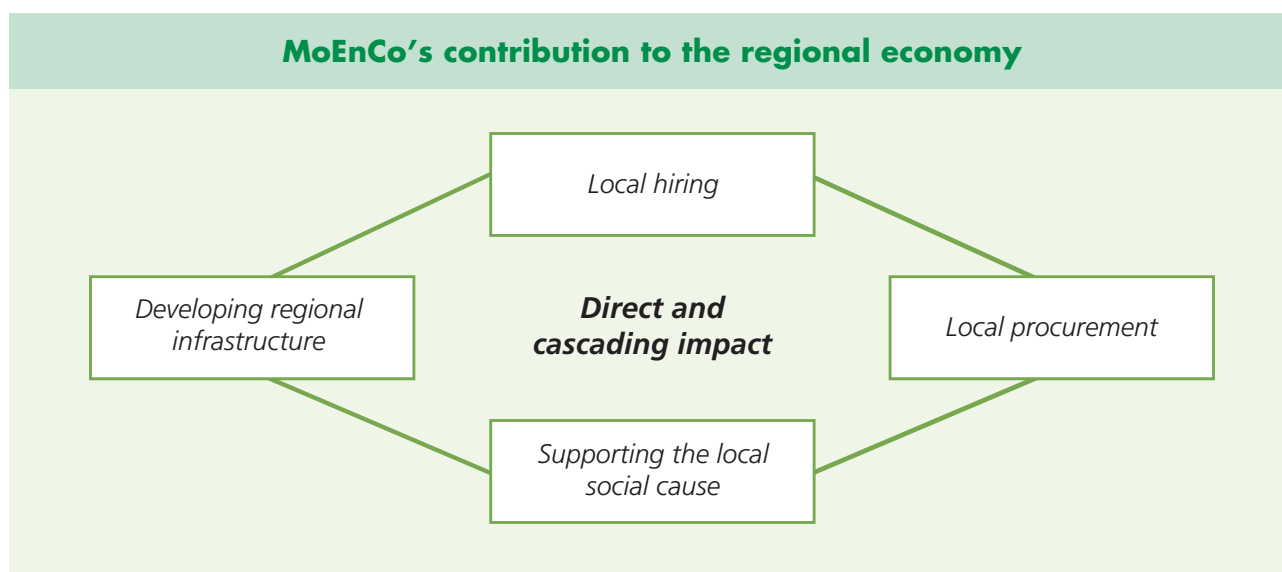
Adhering to the principle of responsible mining and socially oriented business, MoEnCo entered into the Cooperation Agreement with the Khovd province government twice:

- (i) the agreement of 2014 aimed mainly at increasing job opportunities for local citizens and supporting small-size companies in Khovd. In the following years, MoEnCo and Khovd province government jointly reviewed the implementation of this Agreement. In the concluding statement, the Khovd province government expressed its "great satisfaction" of MoEnCo's work toward fulfilling its social responsibility to support local communities.
- (ii) Encouraged by the mutually benefiting cooperation and appreciation of our efforts received from the local communities, MoEnCo entered into the next phase Cooperation Agreement for the years of 2017–2020 with the Khovd government. Every year a group is formed consisting of representatives of the Khovd government and MoEnCo to jointly evaluate the execution of the Cooperation Agreement. We also present monthly briefings and annual reports to the relevant provincial bodies.

INVESTMENT AND CONTRIBUTION TO THE LOCAL ECONOMY

MoEnCo's mining operations are a key contributor to the Khovd province's economy. It is the largest employer in Khovd province and the 311 km long Khushuut road is an engine of the regional development.

The impact of MoEnCo's active presence in Khovd goes beyond mineral extraction and processing. Our mining operation is linked to many other regional businesses including transportation, construction, environmental management and geological services. Altogether we provide an indispensable contribution to the Khovd's economy.



- **Priority to local hiring**

As of end of 2019, 1,771 people were employed at the Khushuut project, of which 76 percent were Khovd residents. As a member of MoEnCo family, residents of Tsetseg, Darvi, Uyench and other districts of Khovd province are similar to 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.

In 2019, MoEnCo contracted 29 local transportation companies to ship its products to the buyers, of which 14 companies were engaged for export transportation. Of all these carriers, 86 percent of their heavy-duty truck drivers were hired locally (Khovd province residents), while the remaining drivers were hired from the neighboring provinces. Similarly, 80 percent of the haulage and road maintenance workers of the MoEnCo's contractors were locals with remaining people being the engineering personnel hired from elsewhere. These people were engaged in snow and ice removal, clearing, repairs and upgrades on our road and other scheduled maintenance works.

There were seven large companies from Khovd province and Tsetseg soum engaged by MoEnCo in land preparation, construction and transporting operations under the Khushuut bag relocation program. All employees of these companies including their sub-contractors were also local businesses and citizens.

MoEnCo mandatorily requires all subcontracting agreements with its contractors and suppliers, for example, transportation companies or construction contractors, to include a provision that they hire the majority of their personnel locally under legitimate labour contracts, and such employment shall meet all legal requirements and with the provisions of compulsory government social and health insurances.

COMMUNITY (CONTINUED) ///

• Priority to local procurement

After years of operations in Khovd, local procurement has become our policy for creating business opportunities for the local entrepreneurs. Our approach to purchase exclusively within the region not only offers benefits to the Khovd residents but also to MoEnCo by reducing operation costs and delivery time. In 2019, a total of 66 contractors supplied goods and services to MoEnCo's mining operations. These included food products, coal handling and transportation, construction works and construction materials, equipment rentals, car maintenance, repairs and rentals, health checkups, hotels and restaurants contracted for long-term services, and driving courses in Khovd province center for the export truck drivers. Over the past decade of supplying products and services to the Khushuut mine, the Khovd and other regional suppliers have gained extensive business experience in cooperating with multi-national company like MoEnCo and in cross-border operations.

	2015–2016	2017	2018	2019
No. of contractors and suppliers	352	284	149	198
of which no. of local suppliers and contractors (individuals and businesses)	139	132	92	135

In 2019, MoEnCo's total purchases of goods and services from local businesses and individuals amounted to MNT123.7 billion (approximately HK\$366.2 million). Within the total procurement, the share of local purchasing has been notably increasing from 45 percent in 2016 to 70.9 percent in 2019.

	2016	2017	2018	2019
Amount of locally purchased goods and services (including coal transportation)	MNT16.07 billion (HK\$ 51.6 million)	MNT35.7 billion (HK\$117.3 million)	MNT47.8 billion (HK\$144.5 million)	MNT123.7 billion (HK\$366.2 million)
of which, percentage of the total procurement	45%	49%	68%	70.9%

• Regional infrastructure development

The Khushuut road is the only hard-covered road within three neighboring rural districts stretching westward from our Khushuut coal mine to Bulgan border point on the Mongolian side, and Takeshiken border on the PRC side. With our road in service since 2011, the local residents in Khovd province are given the opportunity to use the asphalt road free of charge for their transportation of food, materials and necessities. In the vast remote lands, travelling, carrying medical supplies, petrol and equipment are very important in sustaining livelihood of the local communities. After years of operations, various private companies have been set up with eateries and stores in four locations. MoEnCo has built 14 rest areas along the road for long-distance truck drivers. Around 10 petroleum stations have been set up by the petroleum supply companies along the road.

DONATION AND SUPPORT

Giving back to the local communities and supporting their social development is also a part of the Group's corporate social responsibility.

In-kind Contribution

MoEnCo spent a total of MNT134.76 million (approximately HK\$398,769) in 2019 for providing Khushuut village households with free water and electricity. A notable drop compared with the previous year's MNT246.63 million (approximately HK\$745,736.57) is attributed to the gradual moving out of village families from the Khushuut mine location to the new location at Zuun hooloy.

Coal distribution

MoEnCo distributes coal for the Khovd governor's office and local communities for sustaining their livelihood in harsh winters of Mongolia. Sales of significantly discounted coal were also provided to two soums of Khovd as well as to the Khovd Second Central Heat and Electricity Power Plant. MoEnCo's discounted "social" price for 2019 has been 2.8–4.2 times lower than the regional market price for the same quality coal.

	2014–2019	2016	2017	2018	2019
Tonnes of coal distributed free of charge	4,975	363	2,938	93	537
Tonnes of discounted coal sold	87,680	—	—	18,062.3	55,623
No. of local households, social organizations or companies which received discounted coal		—	2,750	3,470	4,124
No. of recipients of free coal		—	127	33	36

Highlights of other socially oriented initiatives by MoEnCo in 2019:

- When a local company, Nomin Shiltgeen, approached MoEnCo with an idea to produce compressed briquette from coal, we offered support to its endeavour because of potential benefits of reducing air pollution compared to burning regular coal. This is why MoEnCo provided 747 tonnes of coal to Nomin Shiltgeen LLC at the discounted "social" price.
- Our mine medical center provides free outpatient medical care and emergency services for the local people in three soums. In 2019, our medical team had treated 237 patients from the local community without charge.
- We sponsored large gathering and concert with 1,000 huumiy musical instrument to players at Jargalant city (Khovd province center), the event has been subsequently applied for inclusion in the Guinness World Records.
- Within the framework of the social responsibility, we sponsored 79 Khovd residents to get trained in E-class and specialized driving (heavy duty transportation truck driving) courses, and after their successful completion, we helped them to get jobs at MoEnCo's transporting contractor companies.
- Over the past few years of operating in Uyench soum, our Khushuut mine's environmental team developed close relationship with the "Eco-Club" of Uyench public school. Our environmentalists visited classrooms for talks and demonstrations while pupils visited the mine in organized groups. We provided this club of pupils interested in responsible mining and ecological preservation with training and demonstration materials.
- MoEnCo was one of the main participants of the Western Region Mining Open Day organized by Khovd province Government in September 2019, during which our team presented information materials for a large number of potential workers, contractor and suppliers.

Since early 2020, the world has been affected by the outbreak of COVID-19. In order to prevent the spread of the pandemic, our management worked closely together with the provincial authorities, the Khushuut mine emergency board has been formed and headed by the camp director in the end of January 2020. This board has been in daily contacts with Khovd province Emergency Commission, receiving their instructions and recommendations and reporting back on tight schedule. The mine's preventive efforts include (i) enhancing camp procedures pertaining to sanitary arrangements and meals preparation; (ii) procuring healthier, more nutritious food supplies for the camp residents, (iii) improving coal transportation logistics, schedules and routes; (iv) boosting of health screening by the mine medical team; and (v) repurposing a number of accommodations with temporary isolation rooms at three different locations along the coal export road.

COMMUNITY (CONTINUED) ///

KHUSHUUT DEVELOPMENT FUND

In accordance with the 2017–2020 Cooperation Agreement between MoEnCo and Khovd province government entered in August 2017, the Khushuut Development Fund was established jointly by the Khovd Government and MoEnCo.

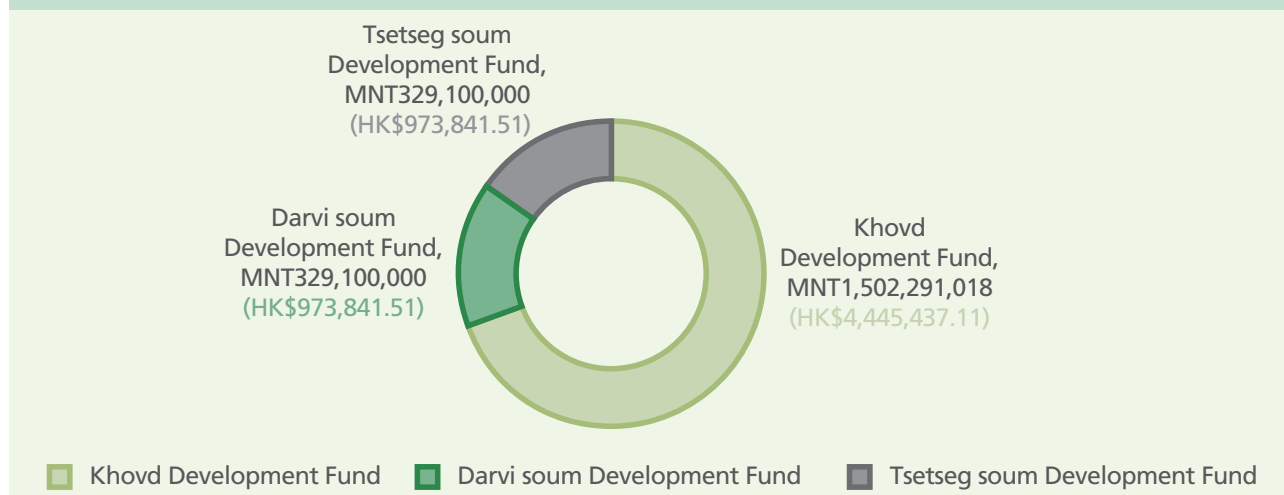
Fulfilling its obligations under this Cooperation Agreement, MoEnCo contributed approximately MNT2,146 million (approximately HK\$6.35 million) to the Khovd Development Fund in 2019. The fund consists of the (i) Khovd provincial fund, (ii) Tsetseg soum fund and (iii) Darvi soum fund, and operates under its regulation approved by Khovd Governor. Its annual plans and reports are approved by the Khovd province citizen's Khural (provincial assembly) and by soum Khurals respectively.

	2014–18	2017	2018	2019
MoEnCo's contribution to Khushuut Development Fund	MNT4,204.73 million (HK\$12.88 million)	MNT665.62 million (HK\$2.18 million)	MNT1,604.93 million (HK\$4.85 million)	MNT2,146.1 million (HK\$6.35 million)

The funding contributed by MoEnCo in 2019 has been used for 48 projects throughout Khovd province including:

- *health sector*: purchasing motorcycles for family doctors of 14 soums, improving the province Maternity Center, repairs of soum hospital buildings and installing modern medical equipment;
- *educational sector*: improvements and repairs in public school buildings and Families and Youth Development Center, purchasing learning and teaching materials and equipment to soum schools;
- *infrastructure sector*: repairs of local roads, bridges and urban public areas, installing or repairs of soum public clean water wells;
- *public services sector*: purchasing laboratory equipment for the Khovd Office of General Agency for Specialized Inspection, improving buildings of public kindergartens and seniors service Center operated under the provincial welfare scheme.

MoEnCo's funding contributed to Khovd Development Fund



We are proud this year that we have successfully relocated the Khushuut village, which was originally in the vicinity of our Mine to a new distant location. We have built modern and essential facilities for the villagers in the new location so that they could live a more comfortable and healthy life than the old village that was under the impact of our mining activities. Apart from the village relocation, our efforts in preserving the environment and our community works all received a positive and satisfactory recognition. We are conscious that our corporate responsibilities will not stop there. We will continue to improve our corporate social responsibility in promoting sustainability in the countries where we have operations.

