



长安仁恒

Zhejiang Chang'an Renheng Technology Co., Ltd.*
浙江长安仁恒科技股份有限公司

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 8139)

2016
Environmental, Social and Governance Report

* For identification purpose only

INTRODUCTION

This is the first Environmental, Social and Governance (the “**ESG**”) report prepared by the Group in accordance with the requirements of Appendix 20 Environmental, Social and Governance Reporting Guide (the “**ESG Reporting Guide**”) to the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (“**GEM Listing Rule**”). This ESG report covers the period from 1 January 2016 to 31 December 2016 intends to give insight into the approach adopted and actions taken by the Group regarding its operations and sustainability that have implication for the Group and the interest to stakeholders.

The ESG report of the Group has been presented into two subject areas, Environmental and Social and each subject area will have various aspects to disclose the relevant policies and the status of compliance with relevant laws and regulations as addressed by the ESG Guide.

The Group understands the importance of ESG report and is committed to making continuous improvements in corporate social responsibility into our business in order to better meet the changing needs of an advancing society. The first ESG report of the Group will present general disclosure of required aspects in policies, initiatives and performance. The Group will continue to optimise and improve the disclosure requirements.

THE GROUP

Zhejiang Chang'an Renheng Technology Co., Ltd. (the “**Company**”) and its subsidiaries Yangyuan Renheng Fine Clay Co., Ltd. (陽原縣仁恒精細粘土有限責任公司) (“**Yangyuan Renheng**”) and Zhejiang Chang'an Renheng Chemicals Co., Ltd. (浙江長安仁恒化工有限公司) (“**Renheng Chemicals**”) (together, the “**Group**”) are principally engaged in the business of development, production and sale of bentonite fine chemicals and provision of relevant support technologies and equipment, and use bentonite as its basic raw materials to manufacture paper chemicals, bentonite for metallurgy pellet, quality calcium-bentonite and other products. The Group has a number of national invention patents, and has obtained the Grade 3 Award of the Science and Technology Award of Zhejiang Province and Grade 2 Award of the Science and Technology Advancement Award of Huzhou City due to its outstanding scientific research achievements. The “dual microparticles retention and drainage aids” and “environment-friendly multipurpose clay deinking agent RHD-18” were listed as national new key products by the Ministry of Science and Technology in 2008 and 2011, respectively.

In addition to dedication to research and development of products, the Group endeavours to make breakthroughs in terms of technology and quality and proactively enlarges its scope of business, to strive for the most return to shareholders. Meanwhile, the Group stresses the responsibilities for environment and society and proactively implements relevant measures to guarantee and enhance efforts for environmental protection, employee benefits, community investment, etc. with a view to creating a win-win business environment for all parties and laying a solid foundation for sustainable development.

ENVIRONMENTAL PROTECTION

Emission Reduction

The Group pays high attention to environmental protection, and has prepared relevant policies in accordance with national laws and regulations and industry standards. It has successfully achieved remarkable achievements in emission reduction through engagement of a professional environmental protection designer to design effective emission reduction programs including installation of exhaust gas treatment devices, construction of wastewater treatment plants, entering into waste disposal agreements, etc. During the period, the Group strictly complied with relevant national laws on environmental protection. During the reporting period, the Group was not involved in any non-compliance cases regarding violation of relevant environmental laws and regulations.

The Group's production mainly concentrates on the production base of Yangyuan Renheng. During production, the major greenhouse gases discharged by Yangyuan Renheng are sulfur dioxide and nitrogen oxides with the annual emission of approximately 0.00879 tonne and 8.15 tonnes, respectively. Other exhaust gases mainly include industrial dust, methane chloride and concentrated sulfuric acid mist with the annual emission of approximately 473.41 tonnes, 75kg and 1.12 tonnes, respectively.

In respect of sewage, Yangyuan Renheng produces approximately 258,000 tonnes of sewage each year in the production of bentonite. The sewage is completely recycled and used for production and operation after treatment. The major harmless solid wastes are industrial dust, stone and sewage treatment sludge and the major hazardous waste is waste activated carbon with the annual emission of approximately 87kg.

The Group has implemented effective emission reduction measures for the aforementioned emissions. For various exhaust gases, we have set up appropriate devices for absorption and recovery including installation of bag precipitators to recycle industrial dust. In the meantime, we have also built wastewater treatment plants to successfully purify and treat sewage and achieve zero emission. As to

solid wastes, we recovered the sand and stone discharged and sold the same or used the same for paving. In addition, we also have obtained economic benefits from this environmental protection activities. Household garbage is sent to the landfill, while other solid wastes are subject to treatment by specialized organizations. For noise, basic vibration attenuation facilities and acoustic insulation equipment have been set within the range of plant, and sound proof walls are used in workshops to minimize noise.

We have made inspiring achievements in respect of emission reduction. In respect of noise, we have successfully reduced the noise volume to ensure its compliance with the class 2 standard under Environmental Quality Standard for Noise (GB3096-200). The achievements of Yangyuan Renheng, a subsidiary of the Company, in terms of emission reduction of other emissions are set out in the following table by four bentonite product categories of the Group:

Product categories	Category of pollutants	Specific pollutants		Output	Original emission	Emission achievement
Papermaking retention aid	Exhaust gas	Industrial dust		321.3 tonne/year	2.02 tonne/year	1.042 tonne/year
Bentonite for metallurgy pellet	Solid waste	Stone		6,200 tonnes	0	0
Quality calcium-bentonite	Solid waste	Stone		10,000 tonnes	0	0
Organic bentonite	Exhaust gas, wastewater, solid waste	Exhaust gas	Methane chloride	7.5kg/year	9kg/year	9kg/year
			Concentrated sulfuric acid mist	1.12 tonne/year	0.11 tonne/year	0.11 tonne/year
			Industrial dust	152.11 tonne/year	1.57 tonne/year	1.57 tonne/year
			SO ₂	8.79×10 ⁻³ tonne/year (in line with requirements)	N/A	N/A
			NO _x	8.15 tonne/year (in line with requirements)	N/A	N/A
		Wastewater	Wastewater	258,000 tonne/year	0	0
			COD	180.6 tonne/year	0	0
			Ammonia nitrogen	9.06 tonne/year	0	0
		Solid waste	Wastewater treatment sludge	300 tonne/year	0	0
			Waste activated carbon	87kg/year	0	0
			Packaging bag	5.42 tonne/year	0	0
			Household refuse	90 tonne/year	0	0

USE OF RESOURCES

The Group strictly complies with the Notice of the State Council on Issuing the Comprehensive Work Plan on Energy Conservation and Emission Reduction (GF [2017] No. 15) (《國務院關於印發節能減排綜合性工作方案的通知》，國發[2007]15號) and has prepared policies on energy and water conservation in accordance with the above notice and other relevant laws. As the production of bentonite products involves large equipment mainly including Raymond mill and winnowing classifier, the annual power consumption of the entire production line is 3.37 million kWh. We have achieved the purpose of power saving by way of addition of industrial inverter, adoption of peak shifting production plan, and optimisation of equipment operation plan.

The Group uses approximately 70 tonnes of packaging materials for its products throughout the year. Water is not necessary for the production of papermaking retention aid, bentonite for metallurgy pellet and quality calcium-bentonite, but is required for the production of organic bentonite. Every tonne of finished products of organic bentonite consumes approximately 45 tonnes of water. We have adopted the reclaimed water reuse technologies and measures to reduce water consumption. Moreover, we place the focus of water saving on domestic wastewater, which will be used as agricultural fertilizer after the treatment in sedimentation basin and collection and treatment in oil separator and septic tank, and will be regularly cleared by local peasants for recycling. Besides, the calcium bentonite obtained after purification of bentonite is an environment friendly material and can be used as waterproof material for underground engineering.

ENVIRONMENT AND NATURAL RESOURCES

The Group understands that enterprise sustainable development is based on precious resources, and therefore proactively promotes various environmental protection plans including the preparation of plan on implementation of maintenance for “three wastes” treatment equipment to guarantee high efficiency and continued and smooth operation of environmental protection equipment.

In addition, Yangyuan Renheng has engaged a third party agency to prepare the Water and Soil Conservation Plan and the Plan on Protection, Restoration and Treatment of Ecological Environment of Mine, and has submitted the plans to the government regulator for filing to facilitate the supervision by relevant local authorities at any time.

We have engaged a professional environmental protection designer to design recycling and emergency treatment plan for the wastes generated during the production process of the Group to reduce or eliminate the various effects on the environment. Meanwhile, the Company proactively cooperates with the relevant governmental departments in regular monitoring and assessment of wastes discharged in daily operation and the effects thereof on the surrounding environment. As a preventive measure, we have also prepared the Emergency Response Plan for Mines. At present, we are in close cooperation with a third party institution in preparing the environmental emergency response plan.

SOCIAL

Employment and Labour Practice

Employees' Interests

The Group regards staff as the fundamental for continued business development and therefore is committed to guaranteeing staff's welfare, proactively attracting talents and endeavouring to build an ideal working environment. We have always complied with the Labour Law of the People's Republic of China, and prepared policies to guarantee employees' interests including the Company Vacation Management System, Company Personnel Management System and Remuneration Management System in accordance with the relevant national laws and regulations as well as the actual conditions of the Company to provide clear guidance on recruitment, remuneration and benefits, promotion, etc. and guarantee fair and equal treatment of staff to prevent nepotism or discrimination. In the meantime, the Company attaches great importance to the benefits for female staff. Apart from equal treatment for male staff, the female staff generally receives basic salary for marriage, funeral and maternity leave.

We have set up an union as an important platform for staff to communicate with the management. The management values staff's opinions and optimises various measures based on the opinions from staff to create a better working environment for them. Given the nature of our business, most employees of the Group are male. The male and female ratio of Yangyuan Renheng, a major subsidiary of the Company, is approximately 58:1. The staff turnover rate is approximately 1%.

Occupational Safety

Staff is an important asset of the Group and we have always given the top priority and the greatest concern to their safety. In this regard, we have prepared a set of complete Rules and Regulations on Production Safety which details various safety specifications and risks to be noted in production. Meanwhile, we strictly follow the Law of the People's Republic of China on Production Safety and the Labour Law of the People's Republic of China to prevent any negligence in respect of occupational safety.

Although the production of bentonite related products is safe without any material hazard to staff, we have also developed different measures to ensure absolute safety. For example, we regularly issue articles for labour protection depending on positions, and regularly conduct safety inspection to ensure effective implementation of various measures. As noise is generated in production and prone to harm staff's hearing, we provide protective earplugs and protective garment for front-line staff. We also regularly investigate hidden dangers in productions lines and operation procedures and take preventive measures in a prompt manner. At the same time, we convene production safety meeting on a monthly basis to collect staff's opinions and discuss improvement measures, and organise comprehensive inspection once a month in the model of "regular inspection, routing inspection, professional examination and spot check" to ensure no omission of any hidden danger. Furthermore, we enhance staff's stress on safety measures through implementing the system of production safety responsibility and rewards and penalties.

Another focus of the Group on occupational safety is conducting regular education on production safety. On the one hand, skill training can enhance staff's professional skills and knowledge on machinery operation and reduce the opportunity for them to make mistakes causing occupational injury. On the other hand, various education activities on occupational safety can proactively strengthen staff's crisis awareness and enhance their vigilance. Thanks to our efforts in all aspects, there was no industrial accident during the reporting period.

Development and Training

The Group's success completely relies on its talents' continuous contributions to the Group. In light of the constantly changing market and technology, it is of vital importance to train talents based on the market conditions. The Group proactively promotes staff to constantly achieve self-enhancement and the human resources department annually analyse training demands of various positions, and determines staff's development orientation in accordance with the future business plan and thus prepare the most proper training program, which is subject to approval by the general manager. The approved training plan is subject to overall planning and arrangement by the human resources department.

For quality inspectors, mechanical repairers, equipment operators, technicians and other positions which require higher skills, the technology department and equipment department shall arrange relevant induction trainings. Other new recruits are also required to take induction trainings to understand corporate culture and job responsibilities. For example, Yangyuan Renheng requires new recruits to attend 10 hours of technical training and 48 hours of safety education and training.

In addition, the Group regularly organises internal courses, lectures or other training activities involving maintenance of key equipment, working indexes of detection focuses, etc. Meanwhile, the Group has prepared the Staff Performance Appraisal System as one of the considerations for promotion, thus promoting staff to proactively improve their skills and knowledge.

Labour Standard

By strictly complying with the Labour Law of the People's Republic of China, the Group strictly prohibits child or forced labour and has prepared a complete set of comprehensive Policy on Prohibition of Child Labour and Remedial Measures for Employment of Child Labour by Mistake to give detailed guidance on these aspects.

In recruitment activities, the persons in charge require applicants to present valid identity documents to verify their age, and may require the applicants whose identity is in doubt to present academic certificate and even resort to local public security bureau for identity identification. In case of child or forced labour, we will stop all the work concerned immediately and send the staff concerned to hospital for physical examination to ensure no effects of work on their health. The physical examination fee shall be borne by the plant concerned. We will follow up the progress depending on the actual conditions to ensure proper treatment for relevant labours.

During the reporting period, the Group has had no non-compliance cases regarding violation of relevant child labour and forced labour laws.

BUSINESS MODEL

Supply Chain Management

The Group's suppliers are divided into three categories, i.e. equipment manufacturers, raw material suppliers and packaging material suppliers. We have prepared relevant supplier policies to give clear provisions on the selection and supervision of suppliers. Before cooperation, we will require suppliers to provide relevant supporting documents on legal operation, and organise technicians and legal personnel to investigate the production site and confirm their operation's compliance with relevant production safety regulations and environmental protection laws. Moreover, for the suppliers selected by us, we will conduct irregular investigation for their production sites during the term of procurement to ensure no violation of our standards and provisions.

We have developed measures to supervise suppliers to prevent risks caused by them to the environment and society. In case of any risk or violation found in regular or irregular spot check, we, with the assistance of the legal department of the Company, will delay the execution of relevant procurement contract, and issue a letter of opinion on rectification to the supplier concerned. We will re-execute the procurement contract until the supplier concerned has completed rectification and complied with relevant provisions as confirmed by the legal department and technology department of the Company.

Our suppliers are spread nationwide and mainly in Shanghai, Jiangsu and Zhejiang.

Product Responsibility

The Group highly values product quality and safety and proactively discharges product responsibilities. In this regard, we strictly comply with the relevant laws of the PRC including the GBT 20973-2007 Bentonite and GBT 27798-2011 Organic Bentonite and our products are fully in line with laws. We have also prepared production warranty policy based on the features of products and usage.

Our technology department has prepared strict index monitoring and emergency mechanism to guarantee health and safety of products. In addition, we use environmental friendly and harmless materials and production procedures to ensure no harm caused by our products. All our products are subject to examination by the quality inspection department which will issue the safety signs and prompt labels meeting standards and confirmation by the technical director with signature. During normal operation, we regularly engage experts in the field to conduct site assessment for the abovementioned category and emergency plan and give upgrade measures. For the problems found, we will stop operation of production line immediately and the person in charge of the technology department will organise the emergency team to conduct correction according to the established program.

In case of complaints against our products or recall of products due to quality problems, we will re-deliver the products involved in the complaint or recall for free, and the technicians will follow up the usage of products re-delivered throughout the process, re-inspect the products involved in complaint, and analyse the reasons with customers to ensure no occurrence of similar circumstances.

We also stress supervision and guarantee of intellectual property rights and safeguarding personal privacy. We have stipulated strict confidentiality policy and listed clear guidance and normative measures in staff manual. Besides, customers' files are subject to strict management by a specially-assigned person to ensure no leakage of customer's information.

Anti-corruption

The Group proactively responds to the anti-corruption campaign in the PRC in recent years and is deeply convinced that the best measure is prevention. Therefore, the Group has internally established a complete prevention, supervision and reporting system in accordance with the Basic Norms of Enterprise Internal Control, and discloses our anti-corruption policy and treatment principles in details to all our staff, suppliers, engineering contractors and business partners. In addition to in-depth background investigation by the human resources department on relevant staff in recruitment, promotion and transfer, we also support and encourage whistle-blowing of corruption to achieve the idea of supervision by all and minimise the possibility of corruption. With the strict systems, the Group has no non-compliance cases regarding violations of relevant laws and regulations on anti-corruption, bribery, extortion, fraud and money laundering during the reporting period.

Giving back to the Society

The Group puts a high value on enterprise' responsibility for the society and proactively gives back to the community. For example, the Group gives priority to residents in surrounding communities in recruitment to enhance local residents' income and improve their living conditions. We regularly communicate with relevant local government departments to ensure that the operation and investment are in line with policy requirements and community demands. We want to bring about the maximum benefits to ourselves and local economy with our investment. We also cooperate with the management organisations of surrounding communities in maintenance and upgrading of roads, power, communication and other infrastructures. In addition, in recruitment, we relax recruitment conditions to include the disabled or social vulnerable groups in the scope of recruitment depending on position requirements.

The Group also participates in social welfare activities and makes contributions to charitable community events including making donations to victims of natural disasters.

