



Feishang Non-metal Materials Technology Limited
飛尚非金屬材料科技有限公司

Stock Code: 8331 (Incorporated in the Cayman Islands with limited liability)



Environmental,
Social and
Governance Report

2016



Environmental, Social and Governance Report 2016

INTRODUCTION

This is the first Environmental, Social and Governance (“ESG”) report published by Feishang Non-metal Materials Technology Limited (the “Company”, together with its subsidiaries, the “Group”). The contents of this report comply with the requirements of the ESG Reporting Guide as set out in Appendix 20 to the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

To operate as a responsible producer of bentonite products has always been a core value of our Group, for we believe people, community, society and the environment are all precious assets to our life. We strive to maintain outstanding standards and best practices in every aspect, as we believe it is the only key to long-term success, for us and for our future generations.

REPORTING PERIOD AND SCOPE

The scope of this report includes the activities and data from our office in Hong Kong and manufacturing facilities in Anhui, the People’s Republic of China (the “PRC”). The reporting period is from 1 January 2016 to 31 December 2016 as per the financial period of our Annual Report 2016. In relation to the information regarding corporate governance, please refer to the Corporate Governance Report contained in the Annual Report 2016.

ENVIRONMENTAL PROTECTION

Our mining and production operations are subject to various PRC environmental protection laws and regulations relating to a broad range of environmental protection matters, such as land rehabilitation, water and soil preservation, noise control and discharge of wastewater and pollutants. Our policy is to comply with all relevant laws and regulations.

To ensure on-going compliance with the relevant environmental protection laws and regulations in the PRC, we have implemented and/or will implement certain measures, such as (i) conducting additional training on topics relating to latest developments in environmental protection laws and regulations; and (ii) nominating our chairman and executive director of the Company, Mr. XU Chengyin to lead our environmental protection team which will be responsible for updating our management and ensuring our compliance with the latest regulatory compliance.

Emissions and Wastes

Dust and gas emissions

The main sources of dust emission of Huanghu Bentonite Mine are mainly from open-pit mining, loading and unloading, flour mill, drying and movement of vehicles and mobile equipment. According to our independent technical consultant, no obvious fugitive dust emissions was observed during the site visit to our Huanghu Bentonite Mine and our processing plant between December 2014 and January 2015. We have a water truck for conducting water sprinkling so as to prevent fugitive dust emission at our Huanghu Bentonite Mine site. In 2016, the Group upgraded its raw material storage facility by (a) adding a top-level meter to increase the degree of automation, which would avoid excessive spillage and therefore wastage of raw materials; and (b) replacing the machines used in input of raw materials with belt conveyors which contributed to reductions in dust emission at the processing plant.

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Gas emissions from the Cowper stove are managed through the use of a dust collector and desulfurisation facility before it is being discharged. In 2015, the Group deployed a new off-site air-drying facility in addition to the original three air-drying facilities. Through reducing the proportion of bentonite products dried by rotary drum driers and increasing the proportion of air-drying products, the Group expects to effectively reduce the need for coal energy and electricity, which will contribute to a significant decrease in the Group's carbon emissions and harmful gas emissions.

Hazardous materials

We have a maintenance workshop for mining machinery at the processing plant and waste oil is collected in discarded oil drums, which is reused as a lubricant. Our processing operations also uses processing reagents such as sodium carbonate, which are stored in warehouses with no secondary containment. Our independent technical consultant was of the opinion that the hazardous materials management risk was low and can generally be managed if environmental standards and regulatory requirements in the PRC are followed.

During 2016, there were no incidents of any material claims, administrative actions or penalties from the relevant PRC authorities in relation to greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste issues.

For the year ended 31 December 2016, air emissions including nitrogen oxide, sulphur oxides and particulate matter were mainly produced from the company vehicles, which all weigh over 15 tonnes.

Type of emissions	Amounts of emission for the year ended 31 December 2016
Nitrogen Oxide (NOx)	366.95Kg
Sulphur Oxide (SOx)	756.8g
Particulate Matter (PM)	26.39Kg

The main sources of the Group's greenhouse gas emissions were from Scope 1 (direct emission from both the stationery and the mobile combustion sources) and Scope 2 ("energy indirect" emission from the acquired electricity) emissions.

For the year ended 31 December 2016		
	Total Greenhouse gases (CO2 and CO2 equivalent) emissions	Intensity (per ton of bentonite)
Scope 1	174.07 tonnes	2.28 kg
Scope 2	3,091.45 tonnes	40 kg

For the year ended 31 December 2016, there was no hazardous waste produced, and the non hazardous wastes in our production were approximately 31,947.70 tonnes.

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Use of Resources

The Group aims to follow the principle of “Recycling and Reducing”, and has set up an “Energy Saving and Waste Reduction Team” which is led by the general manager of the company and the chief of mine of Wuhu Feishang Non-metallic Material Co., Ltd, and communicates the policy to the employees in order to raise the employees’ awareness on resources conservation.

The Group actively promotes a reduction in energy consumption by: –

- i. switching off idle lightings and electrical appliances,
- ii. using variable-frequency equipment in the mine or production areas,
- iii. installing energy saving equipment in the power supply system of the mine, and
- iv. making use of natural sunlight to air dry about 75% of our extracted bentonite ore while the rest uses rotary drum drying.

As most of the above measures were adopted for a period of less than one year, the positive impact is expected to be reflected for the year ending 31 December 2017.

Water requirements for both our mining and processing operations are relatively insignificant. As water is essential to communities, we actively promote water conservation to our employee in our domestic usage of water.

Total electricity consumption for 2016 was 4,441,810 kWh, and the intensity was approximately 58.30 kWh per ton of bentonite produced. Total water consumption for 2016 was 712,000 litres, and the intensity was 9.35 litre per tonne of bentonite produced. As for the packaging materials, total paper used for 2016 was approximately 246.34 tonnes, and the intensity was 3.23349 Kg per ton of bentonite produced. Total plastic used for packaging in 2016 was approximately 88.42 tonnes, and the intensity was 1.16 Kg per ton of bentonite produced.

Managing significant impact on the environment and natural resources

It is our policy that we operate our business in accordance with the relevant legal requirements of the PRC to minimise the impact on the environment and natural resources including land, water and waste rock disposal.

Land rehabilitation

Under the relevant PRC laws and regulations, we are required to undertake measures to restore a mine site to its original state after completion of mining operations. The rehabilitated land must satisfy rehabilitation standards and be approved by the relevant PRC land authorities. Land rehabilitation generally involves the removal of building structures, equipment and machinery, and other physical remnants of mining; restoration of land features in disturbed areas and dump sites; and contouring, covering and revegetation of disturbed areas.

We have developed a geological environment protection and rehabilitation plan which sets out our proposed site closure and rehabilitation measures, such as (i) greening, whereby selected plants such as pine trees and Boston ivy will be replanted at the mining site; (ii) stockpiling topsoil for reuse in rehabilitation; and (iii) rehabilitation monitoring of the area of geological disaster, land disturbance, water environment, soil and new plants. Our independent technical consultant was of the view that our proposed approach to land rehabilitation is generally in line with the relevant recognised PRC industry practices.

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Water management

Water requirements for both our mining and processing operations are relatively insignificant. Processing of our current principal products also does not generate significant waste water. Our independent technical consultant also confirmed that no production wastewater was observed at the processing plant during the site visit. We currently have a simple cut-off drain constructed at the mining site and the mine water and collected rainwater are treated in two settling ponds whereby suspended solids in the water are precipitated, after which it is discharged to a nearby brook. This process has ensured that impacts on the water quality of nearby brooks are substantially reduced.

Waste rock management

According to our independent technical consultant, there was no waste rock dump observed at the mining site as all waste rock generated from our mining operations were either back-filled in mined-out areas or sold to customers who may further process it according to their own needs. Therefore, there was no waste rock dump or evidence of leaching or acid rock drainage observed at the mining site.

Procurement management

As for the procurement of supplies, materials and equipment, the procurement manager shall consider the following factors, where appropriate to minimise the impact on the environment:

- minimal use of virgin material in the product;
- replacement of disposables with reusables or recyclables;
- minimal environmental impact from the entire product or service life cycle;
- minimal packaging or elimination of packaging;
- reduced energy/water consumption;
- toxicity reduction or elimination;
- avoiding single-use disposable items; and
- preference given to materials of high recyclability.

EMPLOYMENT AND LABOUR PRACTICES

Employment

We believe that our employees are valuable assets that contribute to the success of our Group. We recruit our employees based on a number of factors such as their industry experience in the bentonite mining industry, their educational background, and capabilities. We have systematic procedure to conduct performance appraisal annually. Employees' seniority and performance are the two foundations for promoting staff members, which reflects an objective and fair process to retain our talents.

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Compensation, benefits and dismissal

Generally, employees are paid a fixed salary and other allowances based on their respective positions and responsibilities. We have entered into individual employment contracts with our employees that comply with the relevant rules and regulations, covering matters such as wages, employee benefits, employment scope and grounds for termination. Employees are paid promptly, regularly, on time and fairly in respect of work performance. Compensation, benefits or dismissals are based on their merit, qualifications and competence.

Under the relevant PRC laws and regulations, we are required to contribute to a number of employee social welfare schemes in respect of our employees. Such schemes include social insurance contributions (including the basic pension insurance, basic medical insurance, work-related injury insurance, unemployment insurance and maternity insurance) and housing provident fund contributions.

Working hours, rest periods and paid leaves

It is our policy that working hours must not exceed the legal limit, and should be modified where relevant to reflect any particular hazards or risks of the work being done. Employees should be properly compensated for overtime according to the law and within legal working hour limits. There is rest period in each work day. Employees should be granted their stipulated annual leave, sick leave and other types of leave in accordance with the relevant rules and regulations.

Anti-discrimination, equal opportunity and diversity

The Group actively promotes a diverse workplace where people from diverse backgrounds are valued and respected. Our policy is non-discriminatory on the basis of race, colour, national or ethnic origin, gender, sexual orientation, religion, disability, age, cultural background, social group, marital status, family status or other factors conforming to applicable labour laws.

We have complied with the applicable labour laws and regulations in all material aspects during 2016.

Health and Safety

Safety of our employees is always our Group's central concern and is the core of our mission. One of our approaches is to create a strong culture of safety, by implementing high safety standards and by providing appropriate training and education to our employees. We care about our employees and their families, and therefore strive to protect them and by providing a safe and healthy working environment.

The key points of our policies are:

- to provide our employees with appropriate protective gears;
- to promote the general health of employees;
- to reduce work-related injury and illness;
- to ensure information regarding occupational health and safety are made readily available to employees in appropriate language(s); and
- to ensure that employees are aware, through newsletters, training or other effective and frequent means of communication, of our obligations with regards to site safety and their own obligations of ensuring the safety of themselves and other employees.

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We hold a valid Safety Production Permit (安全生產許可證) for our Huanghu Bentonite Mine issued by Anhui Province Administration of Work Safety (安徽省安全生產監督管理局) with a validity till 7 June 2018.

Our safety department is responsible for monitoring the occupational health and safety of our mining and production operations. We have developed a set of occupational health and safety procedures, which cover various aspects of our mining and processing. To avoid any potential accident or occupational health and safety issues in the course of our operations, we have also implemented certain safety measures, including: (i) regular reviews of health conditions of employees involved in the processing of our bentonite products and safety statistics; and (ii) additional training for our mining and production staff on mining and production safety.

During 2016, the Group has not been subject to any material claim or penalty in relation to health and work safety and has been in compliance with the relevant PRC and Hong Kong laws and regulations in all material aspects.

Development and Training

To ensure the quality of our employees at all levels, employees of the Group are encouraged to attend training and development courses to enhance their technical and managerial skills, and knowledge of industry quality standards, occupational health and safety standards and applicable laws and regulations.

Our mining and production employees receive training through orientation training sessions as well as on-the-job training by our more experienced technical personnel. Moreover, our managers receive additional technical and managerial training, and we offer certain of our employees the opportunity to attend external training sessions.

Training includes:

- periodic safety training for all employees;
- periodic training, examinations and certifications for special skills workers in the mines and processing plants; and
- periodic quality control training for employees in the quality control department.

Labour Standards

We believe in a no forced labour and child labour policy.

It is our Group's policy not to use forced, coerced, bonded, or indentured, or involuntary prison labour in any form. All work, including overtime work, shall be voluntary. Employees are free to leave employment upon giving reasonable notice. We do not require employees to hand over government-issued identification, passports or work permits as a condition of employment.

It is our policy not to employ any person under the local legal minimum employment age, or employ any person in a manner which conflicts with completion of their compulsory schooling, or employ any person below the age of 16 years on a full-time basis (unless part of a professional apprenticeship program approved by local laws). Additionally, all young employees must be protected from performing any work that is likely to be hazardous, or likely to interfere with the employees' education, or that may be harmful to the employees' health, or development. It is our Group's policy to adhere to legitimate workplace apprenticeship programmes and comply with all laws and regulations governing apprenticeship programmes.

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The Group has been in compliance with the relevant laws and regulations and has not been assessed any fines or penalties with regards to child labour and forced labour during 2016.

OPERATING PRACTICES

Supply Chain Management

We all have a responsibility to look after the natural environment both for the present and the future. All stages in our supply chain shall comply with and preferably exceed applicable national and legal environmental requirements.

In selecting our contractors and equipment suppliers, we will take into account various factors, such as (i) quality of services; (ii) contracting costs; (iii) safety management; and (iv) relevant qualifications (if applicable). We require our contractors to maintain a high standard of quality for the services provided, and to comply with and have in place adequate occupational health and safety and environmental protection procedures in accordance with the applicable laws and regulations and safety requirements imposed by the relevant PRC government authorities.

Our production department is responsible for monitoring the performance of our contractors by conducting on-site inspections and supervision while the outsourced services are being carried out by our contractors. Our production department is also responsible for evaluating our contractors on a periodical basis.

The principal materials and supplies required for the production of principal products include coal, sodium carbonate and packaging bags. It is our policy that preference should be given to suppliers which have:

- a policy stating their sustainability values and commitments;
- sustainability certificates or awards;
- sustainability management systems or quality management systems that incorporate environmental and social considerations; and
- full compliance with the Group's Supplier Code of Conduct (the "Code") and all applicable environmental and social regulations and legislation.

We work with our contractors and suppliers to ensure that they also strive to meet the principles of the Code and/or have their own supplier code of conduct.

Product Responsibility

We believe that the reliability and quality of our products are crucial to the success of our Group. As such, we have established and maintained stringent quality control standards and testing and inspection procedures at each critical step in the production of our drilling mud and pelletising clay. These standards and procedures are documented in our quality control manual. In addition, we provide training to our employees to ensure effective application of our quality control procedures. We are dedicated to consistently producing high-quality products to meet the requirements of our customers.

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We have been accredited with ISO9001:2008 certification (valid till 17 March 2018), an international certification for quality management systems, for the production of bentonite product, including our drilling mud and pelletising clay.

As for advertising and marketing policies, we are committed to a responsible approach to communication. It is our Group's policy to adhere to internal verification process for information used in advertising and promotion and ensure that our advertising and promotional materials are backed by past performance and relevant data based on customer feedback or laboratory results.

The Group has been in compliance with relevant laws and regulations which had a material impact on our business operation and has not been assessed any fines or penalties with regard to product safety, advertising, labelling and privacy matters relating to our products during 2016.

Anti-Bribery and Corruption

The Group commits to ethical conduct in doing business. It is our policy that all forms of corruption, extortion, fraud and bribery must be prohibited, including those for our own benefit or for the benefit of our relations, friends or associates.

Each employee is given a copy of the employee handbook in which there is a section about the Group's anti-fraud policy, providing clear definition on the concept of fraud and the scope of fraudulent activities including, but not limited to, accepting bribes and rebates and expenditure for improper purposes such as payment of bribes and rebates.

It is our policy that anti-fraud policies and procedures and related measures shall be communicated in a variety of ways within the Group (through employee handbooks, company rules and regulations, publicity or local area network) to ensure that employees receive access to relevant laws and regulations, receive business ethics training, understand the concepts involved in the code of conduct; and be able to differentiate between illegal and ethically-sound behaviours. All employees must be aware of the Group's serious attitude towards fraud prevention and the employees' own responsibility for anti-fraud.

Our Group assesses the risk of fraud and establishes specific control mechanisms to reduce the occurrence of fraud, mainly through the following means:

- 1) Fraud risk assessment is included when the management conducts an enterprise risk assessment at the beginning of each year. Management is required to identify and assess fraud risks at the corporate level, business unit level, and major account level, and to assess the importance and likelihood of fraud, including risk. These assessments also include false financial reports, misappropriation of company assets and unauthorized or inappropriate revenues or expenses, and an assessment of the risk of fraud, including senior management or the board of directors (the "Board").
- 2) The Audit Committee assists the Board in monitoring the risk exposures, the design and operating effectiveness of the relevant risk management and internal control systems and will then report to the Board after properly reviewing relevant procedures. The Group does not maintain its own internal audit team due to cost-saving reason but the internal audit team of the Group's related party is shared with the Group to assist the Audit Committee to review the effectiveness of the Group's risk management and internal control systems.

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- 3) The implementation of control measures to reduce the occurrence of fraud opportunities such as integrity and anti-fraud training to new employees as well updated training to existing employees.
- 4) Establishing a channel for real-name or anonymous reporting on fraudulent activities.
- 5) Requiring our suppliers to disclose to us immediately any situation that may appear as a potential material conflict of interest. They are also expected to disclose if any of our officials or consultants working with the Group has a material interest of any kind in the supplier's business or any kind of economic ties with the supplier.

Employees are expected to observe a high standard of ethical, integrity and professional conduct. The Group has adopted a whistle-blowing policy. The Audit Committee meets regularly with the Company's senior management to consider the effectiveness of internal controls and risk management of the Company. As far as the Group is aware, there were no fraudulent practices brought to the Group's attention during the year.

The Group abides by the Anti-Unfair Competition Law of the PRC, the Interim Provisions on Prohibiting Commercial Briberies, the Anti-Money Laundering Law of the PRC and other laws and regulations that call for integrity and ethical conducts in operating a business.

Community Responsibility

It is our policy to build strong and long-lasting relationships with the communities in our neighbourhoods. The Company cares about the disadvantaged groups and supports charity work. During traditional festivals in 2016, the Group visited elderly homes and households going through a time of hardship. The Group made charitable donations amounting to CNY 200,000 in 2016 for the reconstruction of areas affected by flooding in Anhui Province.