

2018

Environmental, Social and Governance Report



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

* For identification purpose only

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INTRODUCTION

The Group (“**as defined below**”) presents the third Environmental, Social and Governance Report for the year ended 31 December 2018 in accordance with the Appendix 20 Environmental, Social and Governance Reporting Guide to the GEM Listing Rule. The Group is taking this opportunity to disclose to the stakeholders the impacts of the Group’s business on the environment and society, and the relevant matters affecting the stakeholders’ assessments and decisions to the Group. The board of directors of the Group will evaluate and determine the environmental, social and governance related risks to formulate the appropriate and effective environmental, social and governance risk management and internal control systems.

The Report is organised into two main areas, environmental and social areas. It will focus on the directions of management, strategies, priorities and objectives to explain the relationship between the Group’s business and the environment, society and governance. Also, the Group will discuss the execution of strategic management, measurement and monitoring system of the environment, society and governance matters.

The Group understands that the Report is vital to the stakeholders. We will base on the principles of materiality, quantitative, balance and consistency to report the Group’s policies, measures and result achieved on the environment, society and governance. It is comprehensive for the stakeholders to have a further understanding of the Group’s development, performance and situation.

The Group

Zhejiang Chang’an Renheng Technology Co., Ltd. (the “**Company**”) is a limited liability company and was registered in China in December 2000. It was re-registered as a joint stock limited liability company in December 2008 in accordance with the Company Law of the People’s Republic of China (the “**PRC**”). The Company’s H Shares were listed on the GEM of the Stock Exchange on 16 January 2015.

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 research and development, production and sale of bentonite fine chemicals and provision of the relevant technical support as well as the production of paper manufacturing chemicals, organic bentonite, quality calcium bentonite and other products using bentonite as the basic raw materials.

The Group holds several national invention patents. Due to the outstanding achievements in scientific research, we were honoured and recognised by awarding the “Science and Technology Award of Zhejiang Province (Grade 3)” and the “Science and Technology Advancement Award of Huzhou City (Grade 2)”. The “dual microparticles retention and drainage aids” and the environment-friendly multi-purpose clay deinking agent RHD-18” were listed as the national new key products by the Ministry of Science and Technology in 2008 and 2011 respectively.

In addition to the dedication to the research and development of products as well as to make breakthroughs in the aspects of technology and quality, the Group develops the scope of business actively in order to strive for the maximised returns to the shareholders. Besides, the Group has placed high value on the corporate responsibilities for the environment and society. We actively launched various relevant measures to protect and enhance the environmental protection, staff welfare, community investment. It is expected to create a win-win business environment for all parties and a solid foundation for the sustainable development.

A. ENVIRONMENTAL PRODUCTION

A1. Emission Reduction

It is all the enterprises’ responsibilities to protect environment. The Group not only highly emphasises on it, but also actively responses to the national environmental protection policies. The Group also formulated the internal policies according to the national rules and regulations and industrial standards. The objectives are to enhance the Group’s environmental protection equipment, including reinforcing the installation of exhausted gas treatment equipment, construction of sewage stations, signing of waste disposal agreements, etc., in addition to the enhancement of the staff’s environmental protection awareness. It is expected to implement the environmental protection policies in the daily working life.

The Group strictly follows the relevant regulations of the national environmental protection, including the “Environmental Protection Law of the PRC”, “Prevention and Control of Water Pollution of the PRC”, “Prevention and Control of Atmospheric Pollution of the PRC”, “Prevention and Control of Environmental Pollution of Solid Waste of the PRC”, “Prevention and Control of Environmental Pollution of Solid Waste of the PRC (revised in 2015)”, “Prevention and Control of Environmental Pollution of Solid Waste 2018 of the PRC (New Version)”, “Clean Production Promotion Law of the PRC” and “Regulations of Safety Management for Hazardous Chemicals”, etc. During the reporting period, the Group has not violated to any regulations. All the emission arrangements were completely in line with the national standards.

The lines of production of the Group are mainly concentrated on its subsidiary, Yangyuan Renheng, as well as Renheng Technology taking part of the production processes. The Group has formulated the strictly rules of the environmental protection for these two production plants and kept the eyes closely on the emissions of various gases, sewages, hazardous and non-hazardous wastes produced. It is to ensure the emissions do not excess the reference indexes.

The production scale of Yangyuan Renheng is large so the emissions of it are serious relatively. The details of the relevant emissions and the corresponding measures are set out in the following table:

Category of pollutants	Name	Measures for Emission Reduction	Yield	Emission achievement
Greenhouse gas	CO2	The emission is lower than the standard so no measure is taken.	9×10 ³ tonne/year	N/A
Exhausted gas	Methane chloride	Absorbed by activated carbon	50 kg/year *	30 kg/year
	Concentrated sulfuric acid mist	Alkali spray absorption	0.8 tonne/year *	0.7 tonne/year
	Industrial dust	Installed the bag-typed dust collectors and collected them as finished products for recycle and reuse.	480 tonne/year	3.50 tonne
Wasted water	General wasted water	Drained to sewage stations	250,000 tonne/year	0
	COD		170 tonne/year	0
	Ammonia nitrogen		9 tonne/year	0
Hazardous solid wastes	Activated carbon	Disposal	80 kg/year	0
Non-hazardous solid wastes	Packaging of raw materials	Re-sale	5.5 tonne/year	0
	Sludge from wasted water	Compost	300 tonne/year	0
	Domestic rubbish	Disposed in the landfill	90 tonne/year	0
	Sand stones	Recycle for pavement paving	16,500 tonne/year	0

* Comparing to last year, the exhausted gas emissions were declined. The reason of it is the Company injects capital to the production processes for using coal instead of natural gas so the emissions of the methane chloride and concentrated sulfuric acid mist were declined.

The production scale of Renheng Technology was comparatively small and no greenhouse gases were emitted. Other air pollutant is industrial dust and the emissions was 3.0 tonnes during the reporting period. The Group has installed the bag-typed dust collectors in the plants for collection of the industrial dust. Then, it will be treated as the finished products for recycling and reusing in the other production. It can reduce emission, save costs and resources at the same time. Renheng Technology adopted this method for years and achieved significant results.

Furthermore, Renheng Technology does not produce wasted water and hazardous solid wastes. The non-hazardous solid wastes produced are sand stones at 150 tonne/year. It will be collected and re-sale for inferior goods production. In spite of the insignificant emissions in the production processes, Renheng Technology does not ignore it and keep on focusing on the relevant emissions reduction and implement the emission policies.

In addition, the Group turns the purified bentonite into bentonite products which are the environmentally-friendly products. It can be used for the underground work because of its water repellent function. Bentonite can also be used for sewage treatment due to its strong sucking function. It can suck the hazardous substances from the sewages so that the emission of sewages will become clean and clear. Accordingly, the Group's business is not only a commercial activity, but also has a lot of contribution to the environmental protection.

In recent years, the Group has launched two sizable construction projects for emission reduction. The first one is the project of the construction at Zhejiang Changxing with the water treatment agent with 10,000 tonne/year. The construction of the main plant was completed. The installation of equipment is yet to complete and is expected to be completed at the beginning of next year. It is expected that it will further enhance the absorption function to suck the anionic trashes in the sewages. The other project is the construction at Hebei Yangyuan with the production of organic bentonite at 10,000 tonne/year. It has been in the production and recorded the sale of bentonite of \$25,760,000 in 2018. During the reporting period, the Group used the natural gas boilers in place of the coal boilers and reduced the emission of pollutants substantially.

A2. Use of Resources

The Group strictly complies with the “Notice of the State Council on Issuing the Comprehensive Working Plan on Energy Conservation and Emission Reduction GF [2007] 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] No. 15) and the “Notice of the State Council on Issuing “The 13th Five-Year-Plan” for the Comprehensive Working Plan on Energy Conservation and Emission Reduction GF [2016 No. 74” (《國務院關於印發「十三五」節能減排綜合工作方案的通通知》國發[2016] No. 74). The Group has formulated the relevant energy saved and water conservation policies, including the implementation of staggering peak production, and installation of industrial inverters in electrical equipment in order to save electricity. In addition, the Group has implemented the advanced technology to handle the sewage treatment and launched the reclaimed water reuse flow, which successfully achieved the zero emission of sewages and the recycling efficiency. The Group does not have any problems in sourcing water.

In the process of production of pulping and paper-making, the Group used the retardant aid, the main raw material of which are calcic soil and soda ash. During the reporting period, the Group consumed the total amount of calcic soil was 35,467 tonnes. Comparing to last year, it was rise because of the rise in the sale and the stock of the semi-finished products. The consumption of soda ash was 958 tonnes. The main raw materials for production of organic bentonite are high-quality calcic soil, soda ash, tertiary amine and chloromethane and the Group has consumed 6,200 tonnes, 119 tonnes, 837 tonnes and 155 tonnes during the reporting period. The main raw material of the calcium based soil is high-quality calcic soil. The Group has consumed 3,040 tonnes in total in the reporting period, which was slightly increase when comparing to last year. Besides, the Group used various large-scaled mechanical equipment in the production processes, including digging machine, loader, pulverizer, classifier, dispersion machine, mixer, filter press. They mainly consumed the energies of diesel oil and electricity.

The total consumption of the main resources of Yangyuan Renheng and Renheng Technology in 2018 are set out in the table below:

Resources	Yangyuan Renheng	Renheng Technology
Electricity	3,440,000 kwh	300,000 kwh
Diesel oil	163 tonnes *	8 tonnes
Packing materials	390,000 pcs	30,000 pcs

* comparing to last year, the total consumption of diesel oil was increase. It was due to the increase in the mining activity causing the increase in diesel oil consumption.

The main energy conservation measures of the Group are to strengthen the on-site technical guidance and supervision as well as strictly control the consumption situation. The Group has to ensure all the operations are optimised effectively and minimised the energy consumption. The Group has implemented the regular assessments of energy conservation to all the relevant departments and workplaces. The Group carries out the follow-up measures and makes improvement in order to avoid the resource wastage. The Group educates the staff to have a strong sense of energy-save and to advocate all walks of life to care about the energy-save. The Group achieved the result remarkably.

The Group is committed to supporting the environmental sustainability. Our commitment to protect the environment is well-reflected by our continuous efforts in promoting green measures and awareness in our daily business operations. Our Group encourages environmental protection and promotes awareness towards environmental protection to the employees. Our Group adheres to the principles of recycling and reducing. We implement green office practices such as paperless office, double-sided printing, setting up recycling bins, promoting using recycled paper and reducing energy consumption by switching off idle lightings and electrical appliances.

The Group evaluates the environmental protection work from time to time and considers implementing more environmental protection measures and practices. It is to aim at the rule of 3R to reduce use, recycle and reuse and to strengthen the sustainability of the environmental protection.

The Group has consumed 50,000 packing bags during the reporting period, 35,000 of which can be recycled and reused.

A3. Environment and Natural Resources

The Group believes that resources are precious. Yangyuan Renheng and Renheng Chemicals actively launched various environmental protection measures in accordance with their actual situations respectively. The Group has formulated the “Three Wastes” measure for Yangyuan Renheng in respect of the equipment maintenance measure for handling the sewages, exhausted gases and solid wastes problems. It is to ensure the environmental protection equipment can be used efficiently and can be operated soundly. The Group has also employed professional expertise to formulate the “Water and Soil Conservation Plan” and the “Plan on Environmental Protection, Restoration and Recovery of Mining”, copies of which were filed with the governmental authorities for inspection from time to time. Renheng Technology also launched the “Three Wastes” measure for insisting on the sense of environmental protection.

In relating to the noise control, the Group has installed the basic vibration attenuation facilities, acoustic insulation equipment and sound-proved walls in the plants so as to avoid the influence of the daily life of the residents nearby and protect the staff’s hearing. It aims at reducing the noise pollution and the result achieved is satisfactory. During the reporting period, Yangyuan Renheng has complied with the regulations of “Type 2 Standard of Environmental Quality Standard for Noise” (《聲環境質量標準》) (GB3096-200). Renheng Chemical has complied with the “Type 2 Standard of Emission Standard for the Noise at the Boundaries of Industrial Enterprises” (《工業企業廠界噪聲標準》) (GB12348-90).

Although the business of the Group has caused no significant effect to the environment and natural resources, as a preventive measure, the Group actively co-operates with the relevant governmental authorities taking regular monitoring and assessment of daily waste discharged and the influence of the surrounded environment. The Group has formulated the “Emergency Response Plan for Mines” and co-operates with an institution of the cooperation manufacturer currently. During the reporting period, the Group has completed the preparation of the environmental emergency response plan.

B. SOCIETY

Employment and Labour Measures

B1. Employees' Benefit

The staff is the foundation of the Group's business sustainable development. We are committed to protecting the employees' benefits, actively attracting talents and providing a good working environment with all strength. We have been strictly following the "Labour Law of the PRC" and developing improved employees' policies to protect the staff's rights and interests according to the national relevant laws and regulations together with our actual conditions.

The Group has developed a series of relevant systems, including the "Company Holiday Management System", the "Company Personnel Management System", the "Remuneration Management System" and other policies for protecting the rights and interests of the employees. They are to provide clear guidance for recruitment, remuneration and benefit, promotion, and dismissal of employees, so as to ensure the employees are in impartial treatment without any bias or discrimination. In the process of recruitment, the candidates have to attain the jobs' requirements and the Group will arrange interviews for them. After interviews, the Group will conduct the background checks. When all the requirements are fulfilled, the Group will negotiate the salary and job's description with the candidates. The Group also formulated the staff holiday arrangement in accordance with the national regulations. Meanwhile, the Group has maintained related labour insurances for all employees providing full protection for them.

The Group pays attention on the benefits of the female employees in order to ensure they are in equal pay for equal work as well as the equal benefits with the male employees. The employees can receive full basic salaries for their marital leave, funeral leave and maternity leave. Furthermore, the Group will grant 30-day extra holiday to the female employees who are aged 24 giving birth to the first child in addition to the statutory maternity leave and benefits.

B2. Occupational Safety

The safety of the employees is always one of the Group's focal points. The Group keeps on monitoring all kinds of existing occupational safety measures so as to ensure these measures are still effective. The Group also carries out the quarterly assessments to find out and prevent the hidden safety risks timely. The Group strictly follows the "Safety Production Law of the PRC" and the "Labour Law of the PRC" and the relevant rules and regulations. Based on these, the Group formulated the "Rules of Safety Production System" stipulating all the safety specifications and the production and operation risks in details and corresponding prevention and emergency measures as well. All the employees are required to follow seriously.

Although the production process of the bentonite related products is relatively safe, which does not cause any serious harmful effects to the employees, the Group has launched various measures to avoid any accident occurred. The Group distributes the protection stuffs to the staff monthly depending on their job duties and nature. Also, the Group implements the monthly safety check-up and hidden incident investigation work in order to ensure all the measures are still effective and the preventive measures are still efficiency. In relation to the high-risked work, the Group strictly executes the on-site special work and dangerous work management system as well as the reinforcement of supervision and assessment. In addition, the Group convenes the monthly safety production meeting to collect the staff's opinion for assessment and discussion the improvement. The Group organises the monthly integrated check-up, adopt the model of "regular check-up, random check-up, professional checking and random checking" to inspect the execution situation of the safety measures so as to ensure the absolutely safe.

The frontline staff are important for implementing the occupational safety measures. Accordingly, the Group holds the safety production education seminars regularly to enhance the staff's skill and knowledge and the alertness in mechanical operations. In addition, the Group launched the reward and punishment system for the safety production responsibility. The Group also formulated the "Rules for the Safety Production System" including "Safety Production Education Training System", "Safety Production Responsibility and Reward and Punishment System", "Safety Production Accident Management

System” to work in parallel to advocate the staff to pay attention on the safety of themselves and their colleagues.

B3. Development and Training

Talents are an important asset of the Group. The Group has been actively encouraging the staff to study further and self-value added. The Group has launched a set of complete policy in respect of the staff development and training. It bases on the Group’s future development and the talents’ needs to develop the routes of staff trainings and implement the development directions. The Group adopted the management concept of “people-oriented” to build up the development platform actively and to provide technical trainings to the staff.

During the reporting period, the Group had a total of 109 employees, of which 45 worked at the Group’s headquarters in Changxing, and 64 stationed in Yangyuan and various regions which are responsible for production, sales and marketing. At the beginning of each year, the Group releases an annual sales guideline, formulates the sales strategies and sets out the sales targets to the sales representatives of each sales area. At the end of each year, the Group concludes the sales results, compares the sales targets achieved, and assesses the sales staff’s achievement.

The Human Resources Department of the Group analyses the training demands so as to fix the training directions and arrangements. With the general manager’s approval, the relevant trainings will be arranged and held. The training courses holds at least twice annually and paid by the Group. After completion of the trainings, the Group will arrange assessments for the staff to appraise the effect of the trainings for follow-up actions and improvement. The Group formulated the “Staff Appraisal System” to assess the staff’s performance annually. In addition, the Group also formulated the scope of staff’s workflow and technical services areas. The Group carries out the staff appraisal regularly for determination of the salary raised and bonus.

In the processes of the application of pulping and paper-making retardant aid, the production of bentonite or calcium based soil, etc., require the technical experts, including quality inspectors, mechanical operators, equipment operators, professional technicians. Accordingly, all of them have to attend the relevant technical and equipment trainings before they report duties to

the Group. It is to ensure they are familiar with the workflows, machinery operations and the relevant technical skill and knowledge.

Last year, the internal trainings of the Group are mainly relating to the organic bentonite and efficient sludge improver. All the staff of technical department and business department have attended the trainings and passed the assessments. The result achieved was satisfactory. As to the external trainings, the Group has arranged some managerial staff to join the internet and innovative development of enterprises courses. They are the 12-month school system courses. The courses were held in 2 days monthly. All the participants of the courses must complete 12 subjects of the master of business and administration essence course for graduation.

During the reporting period, the Group has held the trainings for the organic bentonite and efficient sludge improver. All the staff of the technical department and business department had to join the trainings and pass the assessments. In addition, the Group has assigned two mid-level managerial staff to attend the 12-day master of business administration course held by Shanghai Jiao Tong University. The average training days completed of each staff was 24 days.

B4. Labour Standard

The Group strictly comply with the “Labour Law of the PRC”. It is severely forbidden to employ children and forced labour. In this regard, the Group has formulated a complete set of rules for “Prohibition of Children Employment and Remedial Measures for Misuse of Children Employment” providing the detailed guidance.

In respect of the prevention of children employment, the Group has to focus on the recruitment process to identify the children labour in the early stage. The job candidates must provide the valid identification documents. The recruitment officers will focus on checking the identification documents, the photos of the identification documents, the valid dates etc, so as to ensure the ages of the job candidates reached the statutory requirements of employment. If the responsible officers suspects the validity of the identification documents, they may ask the job candidates to provide the academical certification in order to verify their

ages. They may check with the local police offices for the job candidates' identification, if necessary. In addition, in order to avoid the job candidates use the other staff's identification documents to work in the plant, all the staff must show their identification documents for re-confirmation when they collect their salary at the first time.

Operating Practices

B5. Supply Chain Management

The Group's suppliers are divided into three major categories – namely, equipment manufacturers, raw materials production suppliers, and packing suppliers. The Group has formulated the relevant suppliers' policies setting out the clear rules for hiring and monitoring the suppliers. Before confirmation to co-operate with the suppliers, the Group will request them to provide the relevant legal operation certifications. The Group will arrange the technical staff and legal staff to have a on-site inspection to make sure the suppliers' operations are in line with the relevant rules and regulations of the safety production and environmental protection. Furthermore, the Group will carry out the irregular on-site inspections to the existing suppliers to ensure they are fulfilled the Group's requirements. Also, the Group will carry out the regular inspections and irregular random inspections to monitor the suppliers' operations closely to ensure they do not cause any risks to the environment and society.

If the suppliers trigger any risks or violation, the Group will suspend the relevant purchase contracts with the advice of our legal department and will send opinion letters to them. The Group will execute the relevant purchase contracts again until our legal department and technical department recognise the suppliers' re-correction actions and the fulfillment of the relevant rules.

B6. Product Responsibility

The Group has set out complete responsibility policies for all kinds of products. Under the "Rules for the Safety Production System", the business department is responsible for the matters of advertisements and labels. Under the "Company Personnel Management System", the administrative department is responsible for the matters of health and safety, and privacy.

The Group is committed to guaranteeing the quality and safety of the products. The Group strictly complies with the China's relevant laws of "GBT 20973-2007 Bentonite" and "GBT 27798-2011 Organic Bentonite". The Group will choose and use the environmentally-friendly and non-hazardous materials, technologies and workflows for production to make sure our products are safe and healthy.

If the Group receives any complaints to the products or need to collect the inferior-quality products, the sales director will make a decision for the emergency collection. The business department will inform the customers, handle the relevant matters and to take up the product collection matters. The quality control department will carry out the checking and testing for the products involved. Then, they will analysis the incident and provide solutions so as to avoid the occurrence of the similar incidents again. The Group will collect and destroy all the inferior-quality products with the general manager's approval.

The Group emphasises on monitoring and protection of the intellectual property rights and protection of personal privacy. The Group has stipulated the strict confidentiality policy in the employees' handbook. All the customers' archives are managed by the assigned staff for the purpose of prevention of the leakage of the customers' information.

B7. Anti-corruption

The Group has actively responded to the anti-corruption campaigns in the PRC in recent year. The Group has formulated a complete set of the internal prevention and monitoring system in accordance with the "Basic Guidance of the Internal Control of the Enterprise". The Group also explained the policies and principles of anti-corruption to the staff, suppliers, contractors and business partners. Furthermore, the Group also formulated the "Prevention, Checking, Reporting of Bribery System" to set out the definition of bribery behavior, the meaning of prevention, checking and reporting bribery and the declaration of anti-corruption from the management. In addition, the Group has set up a reporting hotline publicly and is responsible by a secretary of the party group and deputy general manager of administration. All the information collected will be handled seriously and kept absolutely confidential.

B8. Community Investment

The Group stresses on the corporate social responsibility and gives back to the society actively. The Group has formulated many giving back to the society policies, including communication with the local governmental authorities regularly to ensure the business operation and the investment of the Group are cope with the government policies and the social needs. Also, the Group has co-operated with the surrounding management units of the community to maintain and enhance the facilities of road, electricity, communication and the infrastructure. In the process of recruitment, the Group will give the first priorities to the surrounding residents for the purposes of enhancing their income and improving their living standards. The Group will also recruit the disabled and the socially vulnerable groups depending on the jobs' requirements. The Group also participated in the social welfare and charity activities to give a hand to the poor and work with the community. During the reporting period, the Group donated \$10,000 to the victims of Si An Bai Lian Cun (泗安白蓮村).