



世纪阳光

世紀陽光集團控股有限公司

CENTURY SUNSHINE GROUP HOLDINGS LIMITED

(Stock Code: 509)

2016

Environmental, Social and Governance Report

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INTRODUCTION

Established in 2000, Century Sunshine Group Holdings Limited (“Century Sunshine” or the “Group”) is principally engaged in fertiliser production and magnesium alloy manufacturing. The Group’s Jiangsu production base is situated in Shanzuokou Town, Donghai County, Jiangsu Province. The finished goods primarily include compound fertilisers, organic fertilisers, Si-Mg fertilisers and metallurgical flux. Chemical fertilisers, phosphorite, agricultural residues and serpentine are the main raw materials. The Group owns an open-pit serpentine mine in the vicinity of the Jiangsu production base, of which the serpentine serves as the raw materials of both metallurgical flux and Si-Mg fertilisers. The Group owns an open-pit dolomite mine at a distance of approximately 15 km from its production base of magnesium alloy manufacturing in China Magnesium Valley Park, Hunjiang District, Baishan City, Jilin Province. The dolomite is used as the raw materials for the production of magnesium alloy. During the year ended 31 December 2016 (the “Reporting Period”), revenue of the two principal businesses is also mainly contributed by the two production bases above. Therefore, the Group defines the scope of disclosure as the two production bases for the Environmental, Social and Governance Reporting Guide 2016.

The Group carries out the production of fertilisers and magnesium products and the relevant operations in strict compliance with the laws and regulations in respect of the production technologies and the operational standards to ensure that the requirements of all indicators are met. Below are the details about each measure.

The Group prepared this report in accordance with the “Environmental, Social and Governance Reporting Guide”, Appendix 27 to the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited. The environmental, social and governance (“ESG”) matters relevant to the Group’s business for the Reporting Period which have material environmental and social impact are defined and disclosed in this report.

In the preparation of this report, the Group met with its business partners, employees and other stakeholders under different circumstances to consider and reflect their response and opinions.

The operating practices of the ESG subject areas are explained based on the following aspects.

A. ENVIRONMENTAL

A1: Emissions

With farmland but no community in the vicinity, the Group’s fertiliser production base in Shanzuokou Town, Donghai County is not situated in an industrial park. On the other hand, the Group’s magnesium alloy manufacturing base is situated in China Magnesium Valley Park, Hunjiang District, Baishan City, where a few residential buildings are subject to the government’s resettlement arrangement. The Group has also implemented a series of corresponding measures to reduce emissions and the environmental impact.

At the production bases, all construction projects are carried out within the boundary of the plants. Sewage generated by the Group at the two production bases during the production process will be reused after treatment. Gas emission of the two bases complies with the local regulations. The Group also applies new technologies to reduce the amount of water and energy consumed by each unit of the products.

Below are the Group's administrative measures and guidelines for various emissions:

Resources Management Guidelines

- An environmental, health and safety management scheme is in place in the two production bases of the Group in respect of its production of fertilisers and magnesium products and the extraction of ores. The scheme includes the environmental, health and safety programme of each place of business, control over gas emission and sewage discharge, monitoring of the surrounding environment, treatment of hazardous materials, treatment of industrial solid waste and emergency measures. Effective environmental, health and social management is implemented in the two production bases.

Exhaust Gas Management

- Even though the two production bases of the Group meet the relevant requirements of the government for exhaust gas emission, the Group requires each production base to actively adopt measures to reduce the emission of exhaust gas. By controlling the source of coal, quality coal with low ash content, low sulphur content and high heat of combustion can be purchased consistently, which enhances coal combustion efficiency and stabilises the combustion conditions, hence the low emission of nitrogen oxides. The Group also reduces the dust produced in the drying process by adjusting negative pressure at the points of transfer and storage and widening, decelerating and covering the conveyor belts. As for the Group's production base of magnesium alloy, the emission of dust and acid mist has to be controlled during the production process. Two new acid mist purification towers are set up in the refining workshop at the production base, which are mainly used for improving the working environment of the refining workshop by removing the hazardous materials in the air such as sulphur dioxide and dust.
- The open-pit mines of serpentine and dolomite strictly follow the recommended measures in the environmental impact assessment for erosion reduction and dust control.

Management and Treatment of Waste and Hazardous Items

- At the Group's production base of fertilisers, the phosphogypsum generated during the production process is considered as general industrial solid waste, which is the raw materials of gypsum boards and gypsum products. Currently, all of the phosphogypsum generated by the production base is acquired by the nearby gypsum board manufacturers.
- At the Group's production base of magnesium alloy, all of the waste residues generated during the production process are used up by the local brick manufacturers.
- At the Group's production base of fertilisers, the hazardous sources of raw materials include sulphuric acid and liquid ammonia. The production base has developed a comprehensive programme for the treatment of hazardous items and has installed monitoring alarms in accordance with the requirements. The sulphuric acid and liquid ammonia used by the production base is stored in the grade 2 containers on the ground. All the storage containers of hazardous items are examined by the qualified experts from partnering agencies on a regular basis.

Sewage Management

- The industrial sewage generated by the Group's production bases during the production process is recycled and reused in the production system after treatment in accordance with the industrial sewage treatment procedure, hence no discharge of industrial sewage.
- For each of the Group's production bases, the roads within the area of the plant are covered by a hardened surface. The collection and discharge of rainwater are in strict compliance with the relevant requirements. The production bases also monitor the indicators of heavy metal for rainwater discharge. The sludge collected by the settling tank is treated by qualified waste management companies.
- Domestic sewage is centrally collected and treated by the local environmental hygiene departments.

Noise Management

- The noise management of the two production bases of the Group is in compliance with the requirements of the local regulations. The noise-reducing measures adopted by the production bases include setting up partial enclosures, installing absorbers, carrying out timely repairs and strengthening greening efforts.

During the Reporting Period, the Group did not have any material non-compliant case related to the environmental laws and regulations.

A2: Use of Resources

Use of Water Resources

All the industrial sewage generated during production is reused internally by the production system. The sewage is mainly reused in phosphoric acid production and tail gas scrubbing for the production lines of sulphate-based fertilisers and chlorine-based fertilisers, respectively. Its use can also be optimised by plantwide allocation through the pipes. A small amount is used for greening, dust reduction, etc. in the plant area with no sewage discharged externally. The rainwater initially collected is used in the production system, which reduces external water supply.

Use of Coal Resources

All of the coal purchased by the Group is quality slack coal with low ash content, high volatile matter content, low sulphur content and high heat of combustion. The slack coal is loosely distributed in the grate from bottom to top, which facilitates ventilation and improves coal combustion conditions, thereby enhancing coal combustion rate and reducing the coal content of bottom ash. In addition, ash and dirt are cleaned off the boiler and the economiser at the production base on a regular basis, which reduces heat resistance and enhances heat transfer. This is to ensure that the boiler runs in a good condition and energy can be saved.

Through gradual technology improvements and upgradation, the automatic control on coal feeding, water feeding, forced draft and induced draft of the boiler will be achieved. Real-time adjustments can be made to keep the boiler operating in a good condition.

Use of Electrical Resources

With the application of variable-frequency motor technology, the rotational speed and power output of the motor can be adjusted automatically by controlling the variable-frequency drive with the controller, thereby maximising the energy efficiency of the motor. In addition, a power compensator will be installed in a timely manner in case of imbalanced reactive power which will result in problems such as lower system voltage, lower power quality, lower power factor and higher line loss. Old motors are replaced with new energy-saving motors in order to save energy.

During the Reporting Period, the Group did not have any material non-compliant case related to the use of resources.

A3: The Environment and Natural Resources

The Group pays great attention to the impact of its business on the environment and natural resources. In addition to complying with the relevant environmental regulations and standards and appropriately protecting the local natural environment, the Group incorporates the concept of environmental protection into internal management and project implementation. As described above, the sewage generated by the Group's production bases during the production process is reused after treatment to ensure that the impact on the natural environment is reduced.

Century Sunshine is committed to providing quality ecological fertiliser products to farmers. In respect of the problems such as soil acidification due to the excessive use of fertiliser products and soil crusting, the Group provides the farmers with soil testing and formulated fertilisation services and the relevant knowledge and training, which helps to promote fertiliser products and enhance the farmers' awareness of soil protection at the same time. The ultimate goal of the proper use of fertilisers will be achieved. Soil will remain fertilised with balanced nutrients and the impact on the natural environment and ecology will be reduced.

B. SOCIAL

B1: Employment

The Group determines the remuneration of employees based on their work experience, work performance and current market conditions. Employee benefits include medical insurance, the provident fund scheme with regular contributions, discretionary bonuses and the employee share option scheme. The Group believes that the incentive schemes for employees such as bonuses and the share option scheme, etc. can help to attract and retain the high-performing employees. This continuously provides strong support to the business expansion of the Group.

The Group's relevant policies on human resources are set out in details below.

Enterprise Human Resources Policies and Management: Century Sunshine has formulated the enterprise human resources policies which specify the employment terms and working conditions. These terms cover the recruitment procedures, probationary period, training, performance review, promotion, insurance, remuneration and allowances, resignation, severance and dismissal, leaves, other leaves (including marriage leave, compassionate leave, study leave and examination leave) and retirement, etc. The training contents provided by the Group to the new recruits include the explanations about the human resources policies, of which the details can be accessed by all employees. Each production base handles its own human resources matters independently.

Working Conditions: All workers of Century Sunshine are paid by the Company. In strict compliance with the employment terms set out by the Labour Law of the country, the Company hires its employees on fixed-term contracts. Further employment of employees can be determined by their work performance and their availability for work. Employees are not frequently required to work overtime, unless overtime work is needed in case of emergency needs. If employees need to work overtime, they can receive compensation leaves or cash subsidies calculated in accordance with the compensation conditions set out by the Labour Law of the country. All employees have paid for the insurance and pension in accordance with the Labour Law of the country.

For all employees involved in construction or the contractors who need to work at Century Sunshine's sites, Century Sunshine strictly requires the contractors to fully comply with the Labour Law of the country. The human resources department also carries out assessment on a regular basis.

Labour Unions: In accordance with the requirements of All-China Federation of Trade Unions, Century Sunshine sets up labour unions with union leaders. The management of Century Sunshine undertakes to maintain the independence of the unions.

Non-Discrimination and Equal Opportunities: Non-discrimination and equal opportunities are specified in the human resources policies. All employments and promotions are determined based on work performance of the staff. Under the circumstance where the job applicants fulfil the same criteria, local residents and females will be given priority.

In addition, the Group emphasises that employees shall be entitled to equal opportunities for employment, and it hires them based on their talents. In the belief that the capabilities of employees are not restricted by disabilities, the Group has recruited a group of deaf-mute people as the employees at the plants. This firmly secures the human resources for the Company in its rapid expansion.

Complaint Mechanism: At the briefings for the new employees, the Company introduces the complaint mechanism to them. Employees can file complaints to the human resources manager or labour union leaders. All complaints and mitigation measures will be recorded. If the issue is not resolved, the human resources manager/labour union leaders need to report the relevant complaints to the senior management. The human resources department has set up an email box and a suggestion box to receive anonymous complaints.

During the Reporting Period, the Group did not have any material non-compliant case related to the labour practices of the Company.

B2: Health and Safety

The Group has been committed to formulating and strictly implementing the health and safety policies while obeying and executing the relevant laws and regulations such as “Labour Law of the People’s Republic of China” (《中華人民共和國勞動法》), “Employment Contract Law of the People’s Republic of China” (《中華人民共和國勞動合同法》), “Social Insurance Law of the People’s Republic of China” (《中國人民共和國社會保險法》), “Law of the People’s Republic of China on Prevention and Control of Occupational Diseases” (《中華人民共和國職業病防治法》), etc. Relevant implementation systems have been established within the enterprise. This continuously raises and strives to improve the working conditions and the living environment of the employees, hence protecting their life and health.

The Company has successively invested special funds in the maintenance and transformation of the environmentally-friendly and safety facilities at the production sites, as well as expanding the green coverage by planting to further improve the working environment. Meanwhile, in each room at the staff’s dormitory, network connection has been established with a cable television installed. This effectively ensures that the working and living conditions comply with the requirements for environmental safety and the prevention and control of occupational diseases.

In respect of health protection for employees, the Group annually organises regular medical body check-ups for all employees. Labour protective equipment (kits) is given to employees in accordance with the industrial standards. The Group makes contributions to the social insurance (including basic medical, work-related injury and maternity insurance, etc.) of each employee. This effectively secures the occupational safety and health of employees.

Century Sunshine provides employees with regular training in occupational hygiene and safety. This ensures the compliance of employees' working environment and operations.

During the Reporting Period, the Group did not have any material non-compliant case related to the laws and regulations on health and safety.

B3: Development and Training

The Group values training for talents, human resources and their skills and experience. This is an important element in supporting the long-term development of the Company.

Each production base of the Group annually provides the necessary training for relevant operational positions. The contents of training include the induction training for new recruits, training and counselling for job positions and duties, operational skills, safety knowledge and regulations and systems, etc. Through effective employee training programmes, the professional skills of employees are improved, which provides stronger support to the Group's long-term business development.

B4: Labour Standards

In strict compliance with the relevant requirements of the Labour Law, the Group requires that all job applicants must fulfil the local statutory requirements for age. The Group strictly prohibits the use of child labour, and therefore adopts a set of integrated screening and recruitment procedures. Open recruitment of new employees is conducted in accordance with the employment criteria for different positions. Those who fulfil the criteria can be appointed. During the recruitment process, the human resources department will verify the dates of birth and the graduation certificates of job applicants. Century Sunshine does not hire any forced labour.

In addition, Century Sunshine imposes stringent labour audit requirements on its major suppliers. This guarantees that no child labour or forced labour is employed by the suppliers. This also ensures that the occupational health and safety performance of the suppliers comply with all the local regulations.

During the Reporting Period, the Group did not have any material non-compliant case related to the required labour standards of the relevant laws and regulations.

B5: Supply Chain Management

The Group strictly controls and manages the supply chain. Relevant policies are formulated on the procurement of the raw materials for production in respect of the fertiliser business and magnesium business. Suppliers are subject to thorough inspection and evaluation. In respect of the construction contractors who have submitted tenders for construction projects, several criteria such as their qualifications, technical strengths, construction quality and reputations, etc. will be taken into consideration; the most suitable supplier will be eventually selected. With regard to the products received from suppliers, the Group has also arranged for division of labour in the work of acceptance inspection and supervision. This ensures a smooth flow in each procedure and verifies that the accepted products fulfil the requirements set out by the signed agreements between the Group and suppliers. As for quality and logistics management, the occurrence of behaviours which compromise the interests of both the Group and suppliers is avoided.

B6: Product Responsibility

The Group has a strong customer service team to understand the needs of customers. Relevant fertilisers, magnesium products and fertiliser products are provided to cater the needs of customers. The Group has maintained a good relationship with customers in order to build a long-term cooperative relationship. In a belief that customer loyalty has a significant impact on the Company's business development, the Group particularly stresses the product quality. This seeks to satisfy the customers' needs with products of the top safety and best quality.

The Group's fertiliser brand "Le He He" (「樂呵呵」) was selected as "2016 Top 50 Fertiliser Brands Trusted by Farmers" (「2016 農民信賴的肥料品牌五十強」). After nominations and self-nominations within the whole country, a total of 195 fertiliser brands from nearly hundreds of enterprises in the country participated in the selection, of which the top 50 brands were chosen eventually. Regarding the fertiliser industry, the trust from the farmers is the greatest recognition for a fertiliser brand. This event of selection was conducted with mainly the voting from vast farmers. It was the most representative nationwide selection in the industry. The top 50 brands represent, from the farmers' point of view, the genuine brands with good conscience.

Besides, the quality control of the magnesium ingots and the magnesium alloys produced by the Group complies with ISO9001:2015. The Group believes that maintaining the high quality of products is a vigorous measure to sustain customer loyalty.

During the Reporting Period, the Group did not have any material non-compliant case related to the product responsibility or product description laws and regulations.



B7: Anti-corruption

The Group has developed the “Anti-corruption Management System”, which requires each of its production base and department to strictly comply with the legal guidance such as those related to anti-bribery and anti-corruption etc. as provided to employees. Anti-corruption trainings are also provided to employees with different functions. In the event of any conflict of interests related to an employee’s duties during his/her employment, this must be immediately reported to the senior level of the relevant departments. The issue would also be handled by the Group according to the Code of Anti-corruption.

Good communication channels are established between the management and employees. In the event of found or suspected corruption activities, employees could file anonymous complaints to the management by sending an email about the issues to the management’s mail boxes. The cases would be handled by the Group as appropriate.

During the Reporting Period, the Group did not have any material non-compliant case related to corruption.

B8: Community Investment

The Group respects individual fundamental values and dignity. In the meantime, in support of the community building of where the businesses are located, the Group identifies that good relationships with the community is the key factor to the enterprise’s successful operations. Over the years, the main scope to which the Group aids include, helping the less privileged people, assisting in emergencies, supporting disaster reliefs and participating in voluntary work etc.

Century Sunshine joins the community affairs in the vicinity on a regular basis. An official community complaint mechanism is also set up. Assistance is provided in a proactive manner to the charity work of the surrounding communities, which include the participation in sponsoring the local education and cultural work such as pre-school education, as well as poverty alleviation activities including road maintenance and repair works in the villages etc.

PROSPECT

The Group is principally engaged in operating the businesses of ecological fertilisers and new materials. The Group will strive to contribute to the society and environmental protection aspect. The proper use of fertilisers and soil preservation is prevailing among the agricultural community, and we are providing the best quality farming products to the community. Also, the Group continues to develop, conduct research on and advocate the energy-saving and environmentally-friendly emerging materials, which conserves energy whereas reducing emissions. This yields enormous support to the environmental protection in the community.

Looking forward to the 2017 Environmental, Social and Governance Report, apart from general disclosures in accordance with the “Environmental, Social and Governance Reporting Guide”, Appendix 27 to the Main Board Rules Governing the Listing of Securities of the Stock Exchange of Hong Kong Limited, the Group would also report the key performance indicators in depth. This seeks to further present the Group’s results in the social and environmental responsibilities aspects to the shareholders and the investors.