



Shenguan Holdings (Group) Limited

(incorporated in the Cayman Islands with limited liability)

Stock Code: 00829



Environmental, Social and Governance Report 2018



ABOUT THIS REPORT

Shenguan Holdings (Group) Limited (the “Company”, together with its subsidiaries, the “Group” or “we”) is an enterprise specialized in utilising collagen in the People’s Republic of China (the “PRC”) and committed to the development and application of core collagen technologies. To enable each stakeholder of the Group to understand the Environmental, Social and Governance policies, measures and performances of the Group, we prepared this Environmental, Social and Governance Report (the “Report”) which focused on elaborating the sustainable development works of the Group.

REPORTING STANDARDS

The Report is prepared in accordance with the Environmental, Social and Governance Reporting Guide (the “Guide”) listed in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The Report aims to present true, accurate and meaningful environmental, social and governance information of the Group under the reporting principles of materiality, quantitative, balance and consistency.

REPORTING SCOPE

The Report mainly covers the principal business of the manufacturing and sales of edible collagen sausage casings, which represented the main operating income of the Group covering the period from 1 January 2018 to 31 December 2018 (the “Year”, the “Reporting Period” or “FY2018”). The subsidiaries involved including Wuzhou Shenguan Protein Casing Co., Ltd. (梧州神冠蛋白腸衣有限公司) (“Wuzhou Shenguan”) and Wuzhou Shensheng Collagen Products Co., Ltd. (梧州市神生膠原製品有限公司) (“Shensheng Collagen”). The Report will focus on the Group’s environmental, social and related governance performance. For more details on corporate governance, please refer to the Corporate Governance Report set out in the latest annual report of the Group.





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ENVIRONMENTAL, SOCIAL AND GOVERNANCE STRUCTURE

The Group takes innovation, quality, safety, energy conservation and environmental protection as its development goals, and established the environmental, social and governance systems to propell sustainable development. The board of directors of the Company (the "Board") assumes primary responsibility for the environmental, social and governance of the Group, including setting environmental, social and governance direction and objectives, understanding the current situation and risks of the Group, reviewing performance, making effective correction and ensuring the effectiveness of the governance mechanism. The Board delegates the management and implementation authority of environmental, social and governance to the management of major functional departments, where relevant environmental, social and governance policies are formulated and implemented. The Group has set up a task force, the security and environment protection department, which comprises personnel with environmental protection and production safety management qualifications to take charge of the environmental protection and safety management issues of the Group, and formulated a Comprehensive Management Manual (《綜合管理手冊》) covering product quality, food safety, occupational health and safety, environmental safety, measurement management and intellectual property rights. As a result, a sound environmental, social and governance structure has been established from top to bottom to promote the green development of the enterprise.

STAKEHOLDER ENGAGEMENT

The Group attaches great importance to the impact of production and operation activities on the environment as well as to the stakeholders from all sectors of the society. Therefore, maintaining a good and close communication with stakeholders will help the Group to have an in-depth understanding of the expectations and needs of stakeholders, and help the Group to adjust its business objectives and strategies in grasping opportunities. The table below sets forth the participation methods of the five major stakeholders of the Group:

Employee	Customer	Supplier and distributor	Investor	Government and the public
<ul style="list-style-type: none">• Email and communication• Intranet• Training and activities• Assessment and interview	<ul style="list-style-type: none">• Sales and marketing• Customer service hotline• Group's official website• Customer feedback survey	<ul style="list-style-type: none">• Business conference• Investigation and assessment• Industry forums	<ul style="list-style-type: none">• Financial report• General meeting of shareholders• Circular and announcement	<ul style="list-style-type: none">• Public consultation• Social investment• Charity activities

MATERIALITY ASSESSMENT

The purpose of the Report is to disclose the environmental, social and governance issues that are important to stakeholders. Therefore, the Group invites stakeholder representatives to participate in the preparation of this Report to assist the Group in reviewing the operating performance, identifying relevant environmental, social and governance issues and assessing the importance of these issues to our business and stakeholders. The following table lists 23 major environmental, social and governance issues of the Group for the Year. They are grouped into four categories and ranked according to their importance:

■ 1	Product safety	■ 13	Waste disposal
■ 2	Compliance	■ 14	Prevention of corruption and fraud
■ 3	Innovation development	■ 15	Energy consumption
■ 4	Customer service	■ 16	Water consumption
■ 5	Occupational health and safety	■ 17	Social welfare
■ 6	Disposal of sewage	■ 18	Environment impact management
■ 7	Customer privacy protection	■ 19	Prevention of child or forced labour
■ 8	Equal opportunities	■ 20	Noise pollution
■ 9	Quality certification	■ 21	Dealing with gas emissions
■ 10	Staff Training programme	■ 22	Carbon emission
■ 11	Employment system	■ 23	Use of packaging materials
■ 12	Sustainable supply chain		

■ Industry optimization	■ Care for staff	■ Give back to community	■ Protect the environment
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INDUSTRY OPTIMIZATION

Product Safety

The Group produces quality collagen products, which are used in food, cosmetics, skin care products, health care products and medical supplies. Therefore, the Group strives to ensure product quality is up to standards, so as to provide the safest, high-quality and guaranteed collagen products for consumers.

The Group has established a stringent quality control system and set up a quality control department to maintain product quality. The quality control department will take part in the entire production and sales process, inspect raw materials, accessories and finished products respectively and formulate specific inspection procedures for various raw materials, accessories and finished products to ensure our raw materials, accessories and finished products are meeting the quality standards of national regulations. We will record the inspection results, and raw materials, accessories, semi-finished goods and finished products must meet the qualified inspection results before proceeding to next production process. If any quality loophole or operation problem is discovered, the quality control department will inform relevant responsible department for rectification, and continue to follow up the incident until the problem is solved. In addition, all unqualified products are prohibited from delivery, and will be disposed of or destroyed in a specific manner to prevent unsafe or unqualified products from flowing into the market.

The Group will update the quality standards regularly in accordance with the regulatory requirements, market trends and the finished products that researched and developed, and provide quality production training for employees to ensure that they understand the production operation mechanism and work according to standardized production mode. The Group inspects workplaces, equipment and machinery to avoid potential quality problems caused by improper operation or aging of spare parts. Inspection staffs are also required to receive regular training to ensure that they are aware of the latest inspection items and requirements and to ensure the effectiveness of quality inspection. The Group has also established a comprehensive product return policy to inspect the quality of the products returned by customers and follow up timely.

Quality Certification

Being a manufacturer of edible collagen sausage casing products, the Group has over 40 years of experience in the research, development and manufacturing of collagen sausage casings. The Group is the first enterprise in the PRC which has obtained the patent on the invention of edible collagen sausage casings technology and we have a number of patents on inventions authorized by the State. In September 2018, Wuzhou Shenguan was recognized as one of the Guangxi Top 50 Private Manufacturers. The Group has also passed the ISO 9001 Quality Management System Accreditation, ISO 22000 Food Safety Management System Accreditation, ISO 10012 Measuring Management System Standard Accreditation, Food Production License, Registration Certificate for Manufacturing Enterprises on Export Food, Certification of Halal Food and obtained the Food and Drug Administration Registration for products exporting to the United States. The Group's subsidiary, Guangxi Wuzhou Zhongguan Testing Technology Services Company Limited, obtained the qualification accreditation certificate by a food inspection institution in 2014. It also obtained the qualification accreditation by an independent third-party food inspection institution in 2015, through which we are able to provide inspection service as an independent third-party inspection institution for the society.

INDUSTRY OPTIMIZATION (continued)

Innovation Development

With a focus on developing the grand health industry, the Group promotes the project construction for the industrial chains steadily and proactively investigates the application of collagen technologies in new areas. The Group's product diversification has received positive feedback in a number of areas. With the development goal of "new product development, market expansion and quality-oriented growth", the Group continues to invest tremendous resources in research and development, and establishes corresponding research and development centres according to market, with scientific and research facilities and infrastructure construction in place. In addition to the Group's collagen food products industry, the Group has established subsidiaries in other collagen-related industries and developed by way of equity investment, including the cosmetics industry that collagen is also applicable to use. Guangxi Luxianna Biotechnology Development Company Limited (廣西露仙娜生物科技發展有限公司), a subsidiary of the Group, has obtained the skincare product production permit in 2017. In respect of food and health care products, the Group acquired 25% equity interests in Ferguson (Wuhan) Biotechnologies Ltd. (福格森(武漢)生物科技股份有限公司), a company which is engaged in the production of professional health care products, and focuses on the research and development, production and sales of health care products and nutrition products for pregnant women, toddlers and persons with special needs. In addition, the Group expanded collagen products into the medical industry and acquired Guangdong Victory Biotech Co., Ltd. to research and develop medical collagen, wound dressings and other medical device products with broader applications.

To cater for innovative development, the Group continues to recruit scientific talents, including a number of professionals and technical personnel possessing the knowledge of biological engineering, food engineering, chemical testing, mechanical manufacturing and pharmacy, and introduce advanced laboratory equipment and instruments for product development, testing and analysis to conduct high-end process research and experiments. We received the "Material Taxation Contribution Award" and "Technologically Innovative Enterprise Improvement Award" awarded by the Management Committee of Wuzhou High-Tech Industrial Development Zone and the collagen sausage casings of the Group was awarded the title of "Advanced Enterprise of China Meat Product Industry 2018 – Most Valuable Brand" granted by the China Meat Association.





INDUSTRY OPTIMIZATION (continued)

Customer Service

The Group strives to provide customers with quality and appropriate services. Therefore, we have developed a comprehensive customer complaint handling procedure and goods return procedures to standardize the handling of customer complaint information and improve the timeliness and effectiveness of handling complaint. The Group has established clear information classification guidelines, and customer complaint information shall be recorded in the Customer Information Complaint Handling Record Form, and transferred to designated department personnel within one working day to handle customer feedback that related to quality or non-quality issues. All complaints will be investigated by an independent department, which will collect sufficient and objective evidences to support the findings of investigations. The enterprise management department will follow up and supervise the responsible department to complete the processing of customer feedback within a specified time. All advice and requests from customers will be considered. The Group will decide whether the complaint handling is completed or not based on customer satisfaction feedback, otherwise, it will continue to seek a better rectification plan.

The management of the Group will also review customer feedback to understand their real needs to improve the performance of the Group in terms of product quality or other aspects that are related to services or implementation standards, so as to enhance overall competitiveness.

Customer Privacy Protection

The Group respects personal data and privacy of customers. All personal data are collected for sales services purpose only. The Group has developed clear customer data management guidelines to regulate the collection, storage, access, use as well as deletion and modification of customer data. Customer information will not be collected before receiving customer consent, and all personal data will be stored in an encrypted data system of the Group. Access to and use of personal data will only be confined to personnel of authorized departments. Any change to the personal data will be subject to the consent of customers.

The Group also sets out the requirements on data use and confidentiality in its employee handbook. In the event of any non-compliance incident regarding the rules, employee will be subject to disciplinary action, or in the event of serious cases, will be transferred to the law enforcement agency for legal action.

INDUSTRY OPTIMIZATION (continued)

Sustainable Supply Chain

The Group understands very well that customers and suppliers are the key to the Group's sustainable development. The Group is committed to establishing close and caring relationships with its suppliers and customers and maintaining continuous communication with customers and suppliers through various channels for feedback and advice.

Adhering to the procurement strategy of fairness, impartiality and openness as well as comparison among various suppliers, we will assess the eligibility of suppliers according to factors such as production scale, supply capacity, price advantage, quality assurance and after-sales service. Provided the quality assurance is satisfied, priority will be given to the suppliers which choose environmentally-friendly materials and employ disabled workers. In addition, the Group will carry out internal audit for the operation of food safety system and quality management system annually. Meanwhile, we will also review the suppliers annually according to factors such as the qualified rate of the supply quality and on spot inspection.

The Group's product liability is mainly regulated by the Product Quality Law of the People's Republic of China 《中華人民共和國產品質量法》, the Law on Protection of Consumer Rights and Interests of the People's Republic of China 《中華人民共和國消費者權益保護法》, the General Principles of the Civil Law of the People's Republic of China 《中華人民共和國民法通則》 and other applicable laws and regulations. The laws and regulations require that producers must ensure that products quality meets the standards, that there is no unreasonable hazard to personal and property safety, and that it has proper performance and is consistent with its description. In addition, goods must not be adulterated or counterfeited. The legitimate rights and interests of consumers, including personal privacy, must also be protected. Based on the above measures, the Group has not identified any case of material violations of laws and regulations relating to product and service quality during the Reporting Period.



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CARE FOR STAFF

Occupational Health and Safety

The Group is committed to continuously optimizing the technological process, improving the working environment for the employees and taking all appropriate measures to safeguard their health and safety. Each of Wuzhou Shenguan and Shensheng Collagen has obtained the Grade II Work Safety Standardization Certification (《安全生產標準化二級企業證書》) and OHSAS 18001 occupational health and safety management system certification from the Administration of Work Safety of Guangxi Zhuang Autonomous Region by implementing the safety standardization system in September 2016, thus establishing a sound safety system. In addition, in July 2018, the Group evaluated hazardous factors at the production sites and prepared the Inspection Report on Hazardous Factors at the Production Sites (《工作場所有害因素檢測報告》), so as to identify potential risks and take follow-up measures. The Group also evaluated the types and distribution of the risk factors of occupational diseases arising or existing in the course of production and their exposure level, prevention measures of occupational disease hazards and their effects, and occupational health monitoring and management measures. The Group also conducted test in December 2018, and prepared the Evaluation Report on the Existing Situation of Occupational Hazards (《職業病危害現狀評價報告書》), which concluded that the current situation of the Group's occupational health conforms to the requirements of national laws, regulations and standards on occupational health.

The Group has also formulated a corresponding safety code of practice for all production staff, which details the safety precautions for different production processes, including establishing the "Compilation of Safety Management System" (《安全管理制度匯編》) to protect the health and safety of the employees, developing the "Compilation of Safety Management Responsibility" (《安全管理職責匯編》) to clearly define the safety responsibility of each post, and formulating the "Compilation of Regulations for Safety Operation" (《安全操作規程匯編》) to outline the safety operation regulations for each process. During the Reporting Period, the Group revised the above documents on safety management systems, and improved the structure and management modes of the management departments of each production workshop to clarify management responsibility, optimize the safety guideline and improve the employees' safety awareness, with an aim to jointly create a safe working environment.

In addition, the Group improved various safety training management which requires all new employees to participate in the three-level safety training, arranged training and explanation of the contents of such code on-job responsibilities and also provided safety education for the staff at the company, workshop (department) and team level. In addition to the three-level training for new employees, there are also on-job training and regular training for security officers, on-job training and regular training for special workers, and safety training for position transfer.

To enhance the employees' safety awareness and the chance of survival in case of fire, the Group also regularly arranges drills in respect of first-aid, fire-fighting, evacuation, leakage and escape. In 2018, each production workshop and key functional departments of the Group carried out on-site drill, with an aim to provide the staff with dedicated and effective safety drills to ensure their safety. In addition to establishing a sound shifting system to ensure that the employees will have sufficient time to rest, the Group also focuses on the two-way communication with its employees, and has revised the Emergency Response Plan for Production Safety Incidents (《生產安全事故應急預案》) for the year 2018 and improved incident reporting and investigation policy to encourage employees to report incidents and other matters. Moreover, the security and environment protection department regularly supervises the potential safety risks during production and at the warehouses as well as handle and follow up the incidents reported by staff.

The Group conducts safety inspection and random safety inspection of the production workshops and key departments once a month, and organizes various special safety inspection related to the Company in accordance with the requirements of documents issued by the State and government departments, and rectifies hidden dangers in a timely manner, so as to ensure the personal safety of the Group's employees and protect their property from loss.

CARE FOR STAFF (continued)

Occupational Health and Safety (continued)

The health and safety management of the Group's employees are mainly regulated by the Production Safety Law of the People's Republic of China 《中華人民共和國安全生產法》, the Law on Prevention and Control of Occupational Diseases of the People's Republic of China 《中華人民共和國職業病防治法》 and other applicable laws and regulations. The laws and regulations require enterprises to provide guarantee for the production safety of their units, including establishing a comprehensive production safety responsibility system, organizing production safety rules and regulations and operating procedures, implementing safety education and training, inspecting and eliminating safety concerns of their units, supervising the work of production safety, formulating emergency plans and reporting production safety accidents. Enterprises are also required to prevent their employees from contracting occupational diseases. The Group strictly abides the regulations related to employee health and safety. We continuously update the List of Laws, Regulations, Standards and Other Requirements 《法律法規、標準及其他要求清單》, so as to assist staff to identify various compliance requirements and protect the interests and rights of various stakeholders. The Group also applied "Administrative Measures on 'Three-Simultaneous' Occupational Disease Control Facilities in Construction Projects" 《建設項目職業病防護設施「三同時」監督管理辦法》 and other rules and regulations to enhance the compliant operation of employees. Based on the above safety management and compliance measures, the Group has not identified any case of material violations of laws and regulations relating to the health and safety at the workplace during the Reporting Period.

Employment System

Human resources are of utmost importance to the success and the long-term business development of the Group. The Group ensures that the remuneration of our staff is commensurate with prevailing market rates and they are provided with relevant on-the-job training and development.

Recruitment, Dismissal and Promotion

Our recruitment policies are based on the fundamental values such as integrity, innovation, enthusiasm and team spirit as the basic criteria for recruiting talents. The Group has established the Personnel Recruitment Management System 《人員招聘管理制度》 to regulate the process of personnel recruitment. The Group formulates human resources planning and recruitment objectives according to the Company's development direction, business requirements and cost effectiveness. All candidates are subject to an unbiased entry assessment so as to assess whether they possess the ability to meet the Group's development requirements. The Group has also established the Employee Turnover Management System 《員工離職管理制度》 to protect the rights and interests of resigned employees, clarify the responsibilities and handling procedures of relevant departments, and make the process highly transparent. At the same time, we have also established a strict vetting process to ensure the fairness of the entire recruitment, dismissal and promotion process.

CARE FOR STAFF (continued)

Employment System (continued)

Remuneration Packages and Benefits

In order to attract and retain high quality talents to ensure smooth operations and to cope with the Group's continuing expansion, the Group determines the remuneration packages with reference to market conditions and based on staff's responsibilities, job performance and job scopes, etc. The Group will also revise the performance appraisal method according to actual needs to ensure its objectivity, fairness and representativeness. The Performance Management System (《绩效管理制度》) of the Group clearly sets out the setting, implementation and application of key indicators as well as its assessment and evaluation. The Group has also formulated a work award scheme, under which well-performed employees will be given honorary titles and awards to encourage them to make continuous improvement.

In addition, employees of the Group are entitled to social insurance and welfare according to law. The Group strictly complies with national and local laws and regulations in terms of working hours and holiday arrangements to ensure that our employees can balance between work and life and enjoy their holiday for keeping them physically and mentally healthy.



CARE FOR STAFF (continued)**Equal Opportunities, Diversification and Anti-discrimination**

The Group strives to provide a working environment without discrimination. We endeavour to maintain a diversified working environment that provides opportunities for employees of different genders and ages to develop their talents. Any discrimination against our staff in respect of recruitment, dismissal, remuneration and promotion are strictly prohibited. We have also set up a whistleblowing mechanism. In case of any unfair and unequal cases, a task force will be responsible for the investigation and taking corresponding disciplinary actions.

The Group employed a total of approximately 2,550 employees as at 31 December 2018, the statistics of which are as follows by gender, employment type and age group:

Gender	Percentage in 2018	Percentage in 2017
Male	56%	55%
Female	44%	45%

Age group	Percentage in 2018	Percentage in 2017
Age 18–30	6%	7%
Age 31–40	33%	36%
Age 41–50	48%	46%
Age 51–60	12%	10%
Age 61 and above	1%	1%

Employment type	Percentage in 2018	Percentage in 2017
Full-time	97%	98%
Others (part-time, fixed-term or casual)	3%	2%

The human resource management of the Group is mainly regulated by the Labour Law of the People's Republic of China 《中華人民共和國勞動法》, the Labour Contract Law of the People's Republic of China 《中華人民共和國勞動合同法》 and other applicable laws and regulations. The laws and regulations require enterprises to establish sound rules and regulations to protect the rights and interests of employees, including reasonable working hours and holidays, payment of wages according to law, provision of social insurance and welfare, etc., and to clarify the rights and obligations of both parties in labour contracts. Enterprises must also bear the legal responsibility for jeopardising the rights and interests of workers. Based on the above measures, the Group did not identify any cases of material violations of laws and regulations regarding to employment and human resources during the Reporting Period.

CARE FOR STAFF (continued)

Prevention of Child or Forced Labour

We are always committed to building a mutual respect relationship with our employees. The Group strictly complies with the requirements of the Labour Law of the PRC and recruits people who are at the age of 18 or above holding a valid ID card issued by the Public Security Department of the PRC. The subsidiaries of the Group recruit people in a fair, open and voluntary manner. Each subsidiary has to sign a legal labour contract, indicating there is no compulsory use of labour. We have a prudent and comprehensive recruitment review process and our human resources department will ensure that the personal information provided by the candidates is true and accurate. The candidates are also required to provide proof of identity at the time of the interview to verify their actual age. Our human resources department will also conduct background investigations on the candidates.

The Group also strictly abides by the labour quota standard, in which we do not force or disguise to force employees to work overtime. If it is required for production and operation, the working hours for our staff may be extended for not more than one hour on a daily basis in general as agreed between the trade union and our staff (except for special circumstances under the law), and the extension of working hours is also in line with related national laws. In addition, the Group will regularly review the existence of the employment of child or forced labour in our business operations.

The labour standards of the Group are mainly regulated by the Labour Law of the People's Republic of China, Prohibition of Child Labour Provisions (《禁止使用童工規定》) and other applicable laws and regulations. The laws and regulations explicitly prohibit the recruitment of minors below the legal age, and state that enterprises must take action to ensure that there is no violation of rights and interests such as the employment of child or forced labour. Based on the above measures, during the Reporting Period, the Group did not identify any cases of material violations of laws and regulations relating to the preventing child and forced labour.

Staff Training Programme

The Group values the career development and prospect of its staffs and continues to identify potential talents by the tailored-made internal training plan. Through the training programmes, the Group expects to improve the staff's knowledge at work and foster them to develop diversified skills. Therefore, the staff can utilize their potential and grow together in line with the Group's strategies.

The Group has established the comprehensive training regime and training policy to support on-the-job education and training of the staff in order to upgrade our staff's knowledge and skills. The Group's training programme primarily includes orientation training, on-the-job training and external training. Orientation training courses include the programmes on rules and system on personnel, professional quality, corporate management system, industrial safety and working environment, qualitative foundation, etc. On-the-job training includes accreditation for job qualifications (job theory and practice) and annual training programmes formulated according to the operation objectives of the Company. External training includes job training for special positions. We also offer subsidy to our staff for external training. We will continue to invest resources in providing the best training opportunities to help staff achieving personal and career advancement.

CARE FOR STAFF (continued)**Prevention of Corruption and Fraud**

The management of the Group promotes a corporate culture of honesty and integrity and creates a corporate culture environment of anti-corruption and anti-fraud. The management assesses the fraud risks and establishes specific control procedures and mechanisms so as to reduce the chances of frauds and corruptions. We have a suggestion box in place and our Party and Administration Office is responsible for receiving, investigating, reporting, and making comments upon the reporting of frauds. In the event of fraud or corruption, the Group will take remedial measures timely to assess the internal control of the relevant affected departments and instruct the relevant departments to make improvements. The Group shall, in accordance with the relevant provisions, take corresponding administrative disciplinary actions such as warning, criticism, demotion or dismissal against those employees who have been found to have engaged in fraudulent conducts which required him/her to bear the liability. For those involving the violation of criminal law, they shall be handed over to the relevant authorities according to the law. In addition, in order to enhance the sense of integrity of our staff, we have included staff ethical behaviors into our employee code of conduct. We also require all the new staff to be trained in accordance with the code of ethical behaviors. We train our existing staff through case study approach regularly.

The anti-corruption of the Group is mainly regulated by the Criminal Law of the PRC 《中華人民共和國刑法》, the Anti-Unfair Competition Law of the People's Republic of China 《中華人民共和國反不正當競爭法》 and other applicable laws and regulations. The laws and regulations strictly prohibit enterprise from accepting illegal property to seek benefits for others, and they also prohibit operators from engaging in unfair competitive behaviors, including obtaining benefits through theft, bribery, fraud, coercion or other means in violating provisions and rights. The Group adheres to the principles of voluntariness, equality, fairness and integrity, and complies with business ethics. Based on the above measures, during the Reporting Period, the Group did not identify any cases of material violations of laws and regulations relating to anti-corruption and anti-fraud.

GIVE BACK TO COMMUNITY

Social Welfare

The Group never forgets to give back to the society and is passionate for the social welfare activities while pursuing its own corporate development. We have formulated the “Measures for the Administration of Public Welfare Activities and Charities” (《公益活動和慈善事業管理辦法》), which defines the charity principles of social welfare activities and charities, specifies the scopes, types and beneficiaries of public welfare activities and charities, and stipulates the relevant procedures of donation cause, subject, channels, methods, and responsible party of the donation, composition and amount of the donation, as well as the procedures for handover of the donation.

The Group has established Shenguan Sunshine Charity Fund (神冠驕陽公益基金) and invested nearly RMB1.5 million during the year 2018 to provide support for basic education, which offers financial assistance for the children in the impoverished areas to continue their education and help the impoverished children to enjoy a happy and healthy childhood. These capitals are intended to fund charitable projects such as “Spring Blossom Program” (春蕾計劃), “Shenguan Class of No.1 Middle School of Wuzhou” (梧州一中神冠班), “Children’s Home” (兒童家園) and “Ferguson Golden 1,000 Days Seedling Action” (福格森黃金1000天育苗行動), which provide various kinds of financial assistance. Furthermore, the Group has designated its products including the “COLL-FULL” Collagen Piece Facial Mask, “Meday” Collagen Chips and Ferguson Mother-and-baby Health Care Product as public welfare products, a portion of the sales revenue of which will be donated to Shenguan Sunshine Charity Fund.

The proceeds from the initial program of the fund have been used for the “Spring Blossom Program”, under which three Shenguan Spring Blossom Classes (神冠春蕾班) have been established in Guangxi, Shandong and Henan respectively. Each class accommodates 50 female children, providing them with financial assistance for tuitions and living costs until they graduate from senior high schools. Meanwhile, the fund has launched the “Ferguson Golden 1,000 Days Seedling Action – Nutrition and Health Program for Babies and Toddlers” (福格森黃金1000天育苗行動－嬰幼兒營養健康計劃). The program will first promote and spread education on nutrition for babies and toddlers in Shandong Province, distributing promotion reading materials on nutrition and health for free, helping to improve the nutrition and health conditions of babies and toddlers in the impoverished areas and establishing scientific value of children rearing and pediatric nutrition.



GIVE BACK TO COMMUNITY (continued)

Social Welfare (continued)

For FY2018, the amount we invested to social welfare amounted to RMB2.80 million. Public welfare activities conducted or carried on by the Group included but not limited to:

- Investment of RMB1,500,000 to Shenguan Sunshine Charity Fund
- Donation of more than RMB220,000 to three poverty-stricken villages
- Financial assistance of RMB150,000 for the poverty alleviation program in Xincheng, Laibin
- Provision of RMB430,000 for industrial poverty alleviation projects in areas including Tengxian and Cenxi
- Donation of RMB500,000 to the concentric water tank construction in Hemin Village, Jiangnan Township, Dahua County, Hechi City

PROTECT THE ENVIRONMENT

Emissions

The Group is committed to building an environmentally-friendly corporation and strives to minimize the sewage and production of non-hazardous waste during manufacturing process and reduce the effect of exhaust emission on the surrounding environment under the principle of “prevention first, construction and protection going hand in hand”. We take precautions against any unnecessary pollution, assess the source of emissions regularly and work on plans that can reduce emission from the source. We also make every effort to explore more opportunities to re-use and make the most of waste and sewage in order to continuously improve the equipment and process for disposal of emissions and ensure their effectiveness. When purchasing machinery and equipment, the Group will give priority to advanced environmentally-friendly products to ensure that their emissions meet national emission standards and further strengthen the environmental performance of the Group.

In addition, we devote sufficient resources to advocate the Group’s environmental policy to our staff so as to strengthen their awareness of waste reduction. During the Reporting Period, we established the security and environment protection department with dedicated undersecretary and supervisor of security and environmental protection as well as environmental protection staff to conduct the environmental protection management of the Group. We also established environmental protection workshops within the production plants to deal with the sewage.

As a manufacturing enterprise, the Group is mainly regulated by the Law of Prevention and Treatment of Water Pollution of the PRC 《中華人民共和國水污染防治法》, the Solid Waste Environment Protection and Control Law of the PRC 《中華人民共和國固體廢物污染環境防治法》, the Atmospheric Pollution Prevention and Control Law of the PRC 《中華人民共和國大氣污染防治法》 and other relevant laws and regulations. The laws and regulations require that enterprises must take effective measures and methods to prevent and control water pollution, solid waste pollution and air pollution, and strictly abide by regulatory guidelines on supervision and management, including environmental impact assessment, accurate monitoring of emissions, installation of purification devices, etc., and ensure compliance with the emission standards. Production units shall be liable for the environmental damage that caused. The Group shall comply with laws and regulations by implementing the following measures to deal with emissions. During the Reporting Period, the Group did not identify any cases of material violations of environmental-related laws and regulations.

PROTECT THE ENVIRONMENT (continued)**Emissions (continued)****Disposal of Sewage**

The Group collects sewage generated during the manufacturing process into a collection pool for sewage treatment. Subsequently, after an initial filter that removes the pollutants in the sewage, the sewage then enters the neutralization and regulation reservoir to adjust the sewage pH value in order to meet the required range. Then the sewage is pumped into a floatation tank from the regulating reservoir for solid-liquid separation treatment. The processed sewage, passed through the floatation tank, will undergo the hydrolytic acidification treatment and aerobic biochemical aeration treatment, and finally be processed by sedimentation tank system. The sewage, which has met the standard after the above treatment, will flow into the sewage treatment plant in Wuzhou City for in-depth disposal to further purify the sewage. During the Reporting Period, the sewage pollutants of the Group fully met the discharge standards. During the Year, the production volume of the Group increased, which led to a direct increase in volume of water used in production and sewage. The Group slowed down the increment of sewage by conserving water and recycling purified sewage. During the Reporting Period, the sewage processed by the Group was as follows:

Emissions category	Unit	Emissions in 2018	Emissions in 2017
Sewage	cubic meter	762,760	725,620

Waste Disposal

The Group strives to minimize the manufacturing of waste during the production process and complies with the relevant laws and regulations through strictly complying with its waste management policies. The main wastes produced by the Group were waste collagen and other waste materials generated during the production process and sludge converted therefrom, which does not involve the generation of significant hazardous wastes. Therefore, the disclosure of hazardous waste information is not applicable. During the Reporting Period, the non-hazardous solid wastes produced by the Group and their respective recovery volume were as follows:

Non-hazardous waste category	Unit	Production volume in 2018	Recovery volume	Production volume in 2017	Recovery volume
Sludge	tonne	4,778	18%	6,343	15%
Waste collagen and other waste materials	tonne	1,552	100%	2,500	100%

The Group will recycle waste collagen and other waste materials, and waste materials that are not recycled will be converted into sludge for further treatment. For sludge, active bacteria were added to the sewage, which could be used to pull out and concentrate the stagnant mud produced by biochemical treatment through the sludge pump. This could reduce the water content in the sludge by filtration and dehydration through a chamber pressure filter, so as to reduce the volume of the waste. All the processed sludge would be handled by a qualified recycling company.

PROTECT THE ENVIRONMENT (continued)**Emissions (continued)****Dealing with Gas Emissions**

Gas emissions are induced from certain process production and auxiliary procedure of the Group. During the Reporting Period, the exhausted gas emitted by the Group were generated from the operation of natural gas boilers (including particulate matter, carbon dioxide and nitrogen oxides) and hydrogen chloride exhaust generated from producing cellulose. The gas emissions of the Group during the Reporting Period were as follows:

Emissions category	Unit	Emissions in 2018	Emissions in 2017
Particulate matter	kilogram	40	388
Carbon dioxide	kilogram	38	861
Nitrogen oxides	kilogram	223	1,350
Hydrogen chloride	cubic meter	382,320	257,040

The Group replaced the sawdust-fired boilers with natural gas boilers with high combustion efficiency and high performance in January 2018, combined with desulphurization and high-voltage electrostatic dust removal equipment to reduce the exhaust gas, which has greatly reduced the boiler emissions during the Year. While the increase in hydrogen chloride was due to the change in production processes, for which the Group has monitored and reviewed the environmental impact caused. In the future, the Group will continue to seek for feasible emission reduction measures to further reduce the environmental impact of production activities.

Carbon Emission

Our carbon emissions are mainly derived from energy consumption of electricity and fuel oil. Due to business growth, our carbon emission increased slightly as compared with last year. While keeping close attention to the impact of our business operation on the environment, we will take various energy conservation measures with an aim to control carbon emission. Please refer to the below section headed "Energy Consumption" for details. During the Reporting Period, the relevant carbon dioxide equivalents¹ produced by the Group were as follows:

Emissions category	Unit	Emissions in 2018	Intensity of emissions ² (per unit industrial output value)	Emissions in 2017	Intensity of emissions ² (per unit industrial output value)
Carbon dioxide equivalents	tonne	131,319	0.986 tonnes/ RMB ten thousand	123,994	0.921 tonnes/ RMB ten thousand

¹ The calculation of carbon emission is performed in accordance with the Reporting Guidance on Environmental KPIs (《環境關鍵績效指標匯報指引》) of Hong Kong Stock Exchange, the Baseline Emission Factors for Regional Power Grids in China and the Calculation Method and Reporting Guidance on Greenhouse Gas Emission by Other Industrial Enterprises (Trial) promulgated by the Department of Climate Change of Ministry of Ecology and Environment of the PRC.

PROTECT THE ENVIRONMENT (continued)

Use of Resources

The Group is actively committed to promoting environmental protection and effective use of resources in order to promote a green environment for office and production with four basic principles – reduce, re-use, recycle, and replace. The Group strives to create outstanding and effective energy-saving and consumption reducing management measures to strengthen the energy consumption management within the plants. Wuzhou Shenguan and Shensheng Collagen have also obtained ISO 14001 environmental management system certification to ensure the Group can operate on a going concern and effectively manage its impact on the environment, thus enhancing our efficiency and maintaining competitiveness.

Energy Consumption

Major energy consumption of the Group during the Reporting Period was as follows:

Energy category	Unit	Consumption in 2018	Intensity of consumption ² (per unit industrial output value)	Consumption in 2017	Intensity of consumption ² (per unit industrial output value)
Diesel	litre	167,881	1.27 litres/ RMB ten thousand	182,062	1.35 litres/ RMB ten thousand
Electricity	kilowatt-hour (kWh)	238,954,030	1,800 kWh/ RMB ten thousand	207,744,720	1,543 kWh/ RMB ten thousand
Natural gas	cubic meter	43,937	0.33 cubic meters/ RMB ten thousand	–	–

During the Reporting Period, the Group has increased investments for energy conservation and emission reduction equipment, including phase-out of energy-consuming motors and replacement with highly-efficient motors. Besides, it completed upgrading of the heat pump system of the sausage casing workshop in 2017, with a view to reduce electricity consumption so as to improve efficiency and conserve electricity.

In addition, the Group has formulated its production plans after taking into account the effect of climate and sales seasonality to make full use of production capacity. For example, we avoid production arrangements during the summer period with high energy consumption and low production efficiency, in order to reduce energy consumption and improve production efficiency.

PROTECT THE ENVIRONMENT (continued)**Use of Resources (continued)****Water Consumption**

During the Reporting Period, the total water consumption of the Group was as follows:

Resource category	Unit	Consumption in 2018	Intensity of consumption ² (per unit industrial output value)	Consumption in 2017	Intensity of consumption ² (per unit industrial output value)
Water	cubic meter	1,876,831	14 cubic meters/ RMB ten thousand	1,557,283	12 cubic meters/ RMB ten thousand

The water consumption of the Group was mainly for production and staff's domestic usage. We use water provided by the government and have no difficulty in obtaining suitable water sources. As a food manufacturer whose production activities require water resources, we are fully aware of the significance of water resource protection for the environmental ecology. Due to the positive growth of the Group's business during the Year, water consumption went up as a result of production increase. Therefore, our policy is to implement recycle and reuse of water as much as possible and reduce consumption of natural or clean water. A portion of the limewater and condensate water generated from the production process is treated for reuse through our own sewage treatment equipment, effectively reducing both water consumption and sewage discharge, and saving cost. Based on the above measures, the Group can control the increase of water consumption and reduce the demand for water resources.

Use of Packaging Materials

During the Reporting Period, the packaging materials used by the Group were mainly cartons and plastic packaging materials for finished products. Due to the increase in the output of the Group during the Year and the different production specifications required by customers, the usage volume of packaging materials increased. By adjusting our packaging methods and volumes, the Group have made better use of packaging materials to eliminate waste. In addition, the used packaging cartons are recycled after treatment with an aim to further reduce wastes for disposal. The packaging materials used by the Group during the Reporting Period were as follows:

Packaging materials category	Unit	Usage amount in 2018	Usage amount in 2017
Cartons	tonne	1,810	1,256
Plastic packaging materials	tonne	159	102

² Calculated in accordance with the calculation method of total industrial output value published by the National Bureau of Statistics of the PRC.



PROTECT THE ENVIRONMENT (continued)

The Environment and Natural Resources

Environment Impact Management

The Group is fully aware of the fact that environmental protection can decrease operational risk and increase business opportunities. We will make continuous efforts in bringing the concept of environmental protection and social responsibility into the Group's operations and policies. For example, as to new construction project, we will prepare environmental protection assessment report before the commencement of the construction project and implement the "Three-Simultaneous" project in accordance with the result and recommendations of environmental protection assessment report. "Three-Simultaneous" is the policy which requires that pollution prevention and environmental protection facilities in new construction, reconstruction and expansion projects shall be designed, built and put into operation simultaneously together with the main part of the projects. In daily productions, we also engage a third party to conduct monthly environmental supervision and monitoring, with an aim to ensure all three production zones maintain up-to-standard discharge with focus on energy conservation and pollution reduction. The Group will also continue to improve the production process and update the production equipment to avoid the abuse and wastage of natural resources. In addition, we have also set up emergency response system to deal with environmental incidents. We have also formed a task force to promptly address and reduce the damage of the incidents to the environment. The risk management and internal audit systems of the Group have conducted regular assessment and follow-up on the risks related to the environment and society, and all business departments have also formulated appropriate internal control and risk response plans in respect of major risks.

Apart from complying with the existing national and related provincial environmental protection rules and standards, we also take the initiative to issue an environmental protection proposal to staff of the subsidiaries of the Group, suppliers and partners so as to improve the environment as a team. The Group will continue to encourage its employees to protect environment and conserve natural resources, with an aim to enable everyone to proactively participate in environmental protection and voluntarily comply with environmental protection laws and regulations.

Noise Pollution

Due to the heavy use of machinery and instruments in the Group's production activities, the Group attaches great importance to eliminating vibration and noise sources during the production process to avoid noise transmission. The Group reasonably distributes the workplace of power machinery, and tries to avoid running multiple large mechanical devices at the same location. However, it is forbidden to work at night in areas near residences, so as it will not affect the surrounding communities. In addition, if the use of air compressors, generators and other machineries generate higher decibel, the Group will add silencers to reduce noise.