



恒安國際集團有限公司

HENGAN INTERNATIONAL GROUP COMPANY LIMITED

Stock code: 1044

Environmental, Social and
Governance Report

2018



Contents

A. FOREWORD	2
1. ABOUT THE REPORT	2
2. HIGHLIGHTS OVERVIEW	3
3. ABOUT THE GROUP	4
4. MAJOR HONOURS IN 2018	5
B. ESG MANAGEMENT	6
1. ESG STRATEGY	6
2. STAKEHOLDER COMMUNICATION	7
3. MATERIALITY ASSESSMENT	8
C. PRODUCT RESPONSIBILITY	9
1. PRODUCT R&D	10
2. QUALITY ASSURANCE	11
3. PROCUREMENT RESPONSIBILITY	14
4. CUSTOMER SERVICES	17



D. HEALTH AND SAFETY	20
1. WORK SAFETY	20
2. OCCUPATIONAL HEALTH	22
E. GREEN DEVELOPMENT	23
1. ENVIRONMENTAL PROTECTION	23
2. TACKLING CLIMATE CHANGE	26
3. RESOURCE CONSERVATION	29
F. EMPLOYEE CARE	33
1. EMPLOYMENT	33
2. TRAINING AND DEVELOPMENT	38
G. BUSINESS INTEGRITY	40
H. CHARITY	41
APPENDIX: KPI INDEX TABLE	43
READERS FEEDBACK FORM	45





Environmental, Social and Governance Report

A. FOREWORD

1. About the report

Following our enterprise vision of “becoming the top domestic necessities enterprise in China through sustainable innovation and high-quality products and services”, Hengan International Group Company Limited (hereinafter referred to as “Hengan” or “the Group”) is committed to creating a harmonious enterprise by building a sustainable business model, continuously promoting energy-saving and emission-reducing within the enterprise, and creating a stage for employees to realize their values of life, such that they grow with Hengan; meeting customers’ needs by providing high-quality products and services; undertaking social responsibilities through practices, pursuing the common growth among enterprises and employees, partners, consumers and the society, and establishing a good corporate image.

The Group prepared the 2018 Environmental, Social and Governance Report (ESG Report), introducing the concept and practice of the Group’s sustainable development and social responsibility from environmental and social aspects.

Reporting scope

The report covers 25 production companies (27 production bases) of three major business segments of the Group – paper production, post-processing of paper and sanitary products (including sanitary napkins and diapers), ranging from 1 January 2018 to 31 December 2018 (Reporting period). As compared to the 2017 ESG Report included in the annual report published on 12 April 2018, the Group has included Weifang Hengan Thermal Power Co., Ltd and Xinjiang Hengan Paper Co., Ltd in the report, and has not made any other significant adjustment to the scope of disclosure.

References

The report has been prepared based on the requirements of the Environmental, Social and Governance Reporting Guide 《環境、社會及管治報告指引》 (ESG Reporting Guide) 《ESG報告指引》 in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited 《香港聯合交易所有限公司證券上市規則》, with reference to GRI Sustainable Development Reporting Standards 《GRI可持續發展報告標準》 (GRI Standards) 《GRI標準》.

The Group has assessed applicability and materiality of relevant aspects and KPIs according to the ESG Reporting Guide. The report has complied with the disclosure requirement of “comply or explain”, explained the disclosure rules inapplicable to the Group, and followed the reporting principles of Materiality, Quantitative, Balance and Consistency. Environmental KPIs disclosed in this report cover majorly those from the 25 production companies, while other data from the Group as a whole.

Report availability

The report is published in electronic edition, which is available on the HKEx website (<https://www.hkex.com.hk>) and the Group’s website (<http://www.hengan.com>).



2. Highlights overview



Obtained **25** ISO9001 certifications
Obtained **17** OHSAS 18001 certifications
Obtained **20** ISO 14001 certifications
Obtained **11** FSC/COC certifications



Paper production energy consumption lower than national energy consumption advance level by **12%**



Water consumption of paper production lower than the upper limit of national energy consumption standard **80%**



Recycling rate of paper production wastewater **>99%**



Total training hours **273,000h** or so



Accumulative donation from the Group and its main shareholders as of the end of 2018 **>RMB1.3 billion**



Total employees **23,000** or so



3. About the Group

Established in 1985, the Group was among the earliest players in China's sanitary napkin market. It is now the largest manufacturer of packaged tissue paper and women and children hygiene products in China, with over 40 independent incorporated companies nationwide and the total assets of over RMB45 billion. The Group has built up a nationwide production and sales network and established three leading products – sanitary napkin brands of Space 7, Anerle and Anle. The market share of Anerle baby diaper and Hearttex tissue paper exceeds its domestic competitors in consecutive years. Anerle, Hearttex and Anerle have been recognised as "China Famous Trade Mark" by the State Administration for Industry and Commerce (SAIC). The Hearttex series products have been assessed by the Administration of Quality Supervision, Inspection and Quarantine (AQSIQ) as "China Famous Product".



Innovation plays a major factor in achieving sustained, rapid and healthy development. Since 2002, the Group has introduced world-class management consulting companies twice to promote management reform, and then its business performance has grown by over ten times in the following decade. Hengan was successfully listed on the Stock Exchange of Hong Kong on 8 December 1998. On 7 June 2011, it was officially admitted as a Hang Seng Index constituent stock.

In recent year, Hengan has introduced world-leading production equipment, and meanwhile driven capacity expansion in paper production bases for packaged tissue paper located in Jinjiang of Fujian Province, Changde of Hunan Province, Weifang of Shandong Province, Chongqing, Wuhu of Anhui Province and Changji of Xijiang Uygur Autonomous Region. Its packaged tissue paper production capacity has listed top of the industry. Driven by the implementation of "The Belt and Road" strategy, the Group has also expedited its overseas business development with acquiring listed companies in Malaysia, investing and building plants in Indonesia and Russia, and investing in bio-pulping projects in Finland. Those practices have further extended its industrial chain and layout in the international markets. The sales income of Hengan reached RMB20 billion and its profits recorded about RMB3.8 billion in 2018.



4. Major honours in 2018

- 1978-2018 Forty Years of Reform and Opening-up, Forty Brands
- 2018 China Top Ten Influential Brands
- Top 500 Chinese Private Enterprises in 2018
- Top 500 Chinese Private Manufacturing Enterprises in 2018
- Top 100 Hong Kong Stock Brand Value in 2018
- The World's 2,000 Largest Public Companies 2018
- Donation of RMB200,000 on student grant in 2018
- Philanthropy for scholarship – "Targeted care to build the future"



B. ESG MANAGEMENT

1. ESG strategy

The Board of Directors of Hengan supports the Group’s commitment to fulfilling its corporate social responsibility and assumes overall responsibility for the Group’s environmental, social and governance strategies and reporting. Hengan understands the importance of improving its environmental and social benefits to its sustainable operation, and has included ESG risk and opportunity factors in its business strategy, which provides a direction for its daily operation. The Board is responsible for evaluating and determining the Group’s ESG risks and ensuring that the Group has established appropriate and effective ESG risk management and internal control systems. The Board annually reviews the Group’s ESG performance, and examines and approves the Group’s annual ESG report.

The Group’s management is responsible for executing ESG risk management and internal control systems, reporting ESG risks and opportunities to the Board, and providing the Board with confirmation as to whether the ESG system is valid.

The Group has established ESG team composed of major departments of the Group, which is responsible for ESG reporting progress and daily affairs, establishing and improving the risk management and internal control policies for ESG reporting, building and upgrading ESG reporting related data and information collection process, collecting ESG reporting related data and information, and ESG report preparation.

Adhering to the strategy of sustainable development, the Group is committed to providing the society with high-quality products. The Group has developed its ESG strategies based on the core principle and achievable goal of green and sustainable development so as to provide guidance for ESG management in daily operation. In addition, the Group regularly reviews its corporate social responsibility policies and strategies to ensure their appropriateness and applicability for its businesses.





2. Stakeholder communication

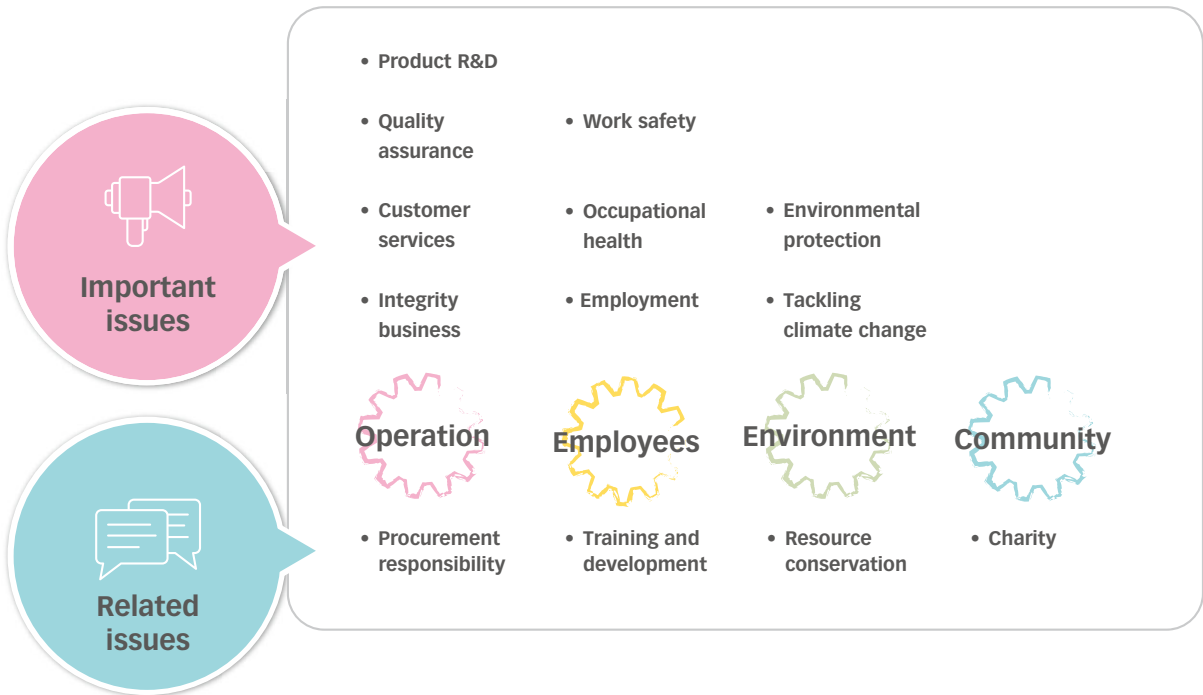
The Group's major stakeholders include shareholders, employees, governments and regulators, customers and consumers, partners, communities and media. The Group attaches great importance to its communication with stakeholders, and has established effective channels to understand stakeholders' expectations and to discuss and respond to their concern on ESG matters.

Stakeholders	Communication mechanisms		Stakeholders' expectations
Governments and regulators	Daily management Meetings Monitoring and inspections Policy consultation Reporting	Multiple per year	Abide by laws Pay tax in accordance with law Support local development
Shareholders	Shareholders' general meetings Information disclosure Activities promoting investor relations	Multiple per year	Guarantee reasonable and stable income Safeguard right to know Improve corporate governance Improve risk control
Customers and consumers	Service hotline Enterprises' official websites Brand promotion activities	Daily	Provide healthy and premium products Continue to innovate Offer first-rate services
Employees	Labour unions Employee Trainings Staff activities	Multiple per week	Protect rights and interests Provide promotion and development Guarantee work safety Provide equal opportunities Democracy and communication
Media	Interviews about business operation Corporate culture publicity Thematic activities	Multiple per year	Understand the fulfilment of corporate social responsibility Understand the enterprises' major events
Partners	Negotiation and communication Supplier investigation and evaluation Open bidding and tendering Communications and exchange visits	Multiple per month	Keep promise Advocate openness and fairness Promote cooperation and development Share success
Community	Charitable donation Cultural and sports support Voluntary service Publicity for environmental protection	Multiple per year	Support local employment Promote social harmony Drive sustainable development
Environmental	Regulators' monitoring and inspection result Third-party inspection bodies' inspection result ESG report Greenhouse gases emission report	Multiple per year	Reduce emissions Conserve energy Protect forests Adapt to climate change

3. Materiality assessment

According to the ESG Reporting Guide, the Group carried out internal stakeholder survey by giving out ESG materiality assessment questionnaires designed considering impacts on company business and on stakeholders, and analysing the materiality of relevant subjects based on the feedbacks. The Group discloses and responds to relevant subjects in the report in degrees of detail varying with the materiality result of different subjects, which is shown below:

Materiality assessment results





C. PRODUCT RESPONSIBILITY

Following its vision of “Becoming the top domestic necessities enterprise in China through sustainable innovation and high-quality products and services” and the policy of “Pursuing human health and happiness and producing sanitary, comfortable and high-quality articles of daily use”, Hengan carries out consistent innovation and reform to improve its offerings and promotes the healthy and sustainable development to realise the common progress of society, enterprise, customers, shareholders, employees and partners.

Hengan’s nationwide sales network in China consists of its core competitiveness. It has set up over 300 sales offices in China and maintained business relationship with over 3,000 distributors, with its products sold in nearly millions of stores among traditional and modern markets in China. Hengan’s products are also exported to Southeast Asia, Africa and other regions.



1. Product R&D

1) Innovation capability

Over 34 years, the Group has always maintained vigorous momentum of technological innovation. It continuously enhanced product R&D, raised its technical and product levels, led domestic market, and retained the leading edge in the long-term competition against international renowned brands. The Group actively engages in various technical exchanges, works with domestic and overseas research organisations and professional institutions, and continues to introduce international advanced production equipment in order to strengthen market competitiveness of new products by technology and new processes and to keep pace with the international advanced level.

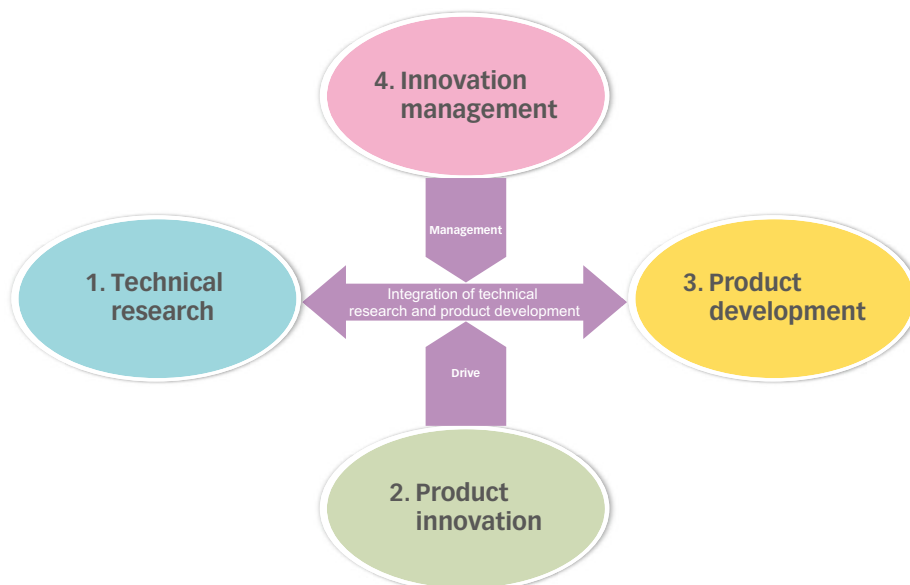
The Group has established a complete set of product innovation system to consistently create products and services with higher value for customers and consumers, enhance the competitiveness for all products, and achieve its hundreds of billions strategic target. The system focuses on the requirements of market and consumers, and drives the implementation of internal product management.

The Group has established product management committee composed of the senior management, which is responsible for coordinating the management of product planning and development, and set up marketing and product planning team. The product development team and technical experts committee carry out specific product planning and development.

In terms of standard innovation, the Group has set up standard committee to develop and publish unified standards and normative processes. The technical standard team subordinate to the committee, based on an innovation centre, is divided into material team, finished product team, equipment team and others. It tackles with the full life cycle management, including organising and coordinating build-up of technical standard system, and the review, issue and update for technical standards content. With regard to model innovation, the innovation centre adopts project system for operation and evaluation, and manages projects according to work flow. The product development project applies performance appraisal method and incentive method aiming at promoting effective collaboration among team members to maintain its efficient operation.

Hengan has set up an innovation centre to comprehensively carry out product innovation from four dimensions of technical research, product innovation, product development, and innovation management. The centre consists of an efficient innovation team, including over 100 of full-time R&D personnel, 86 of them with bachelor degree or above, 30 with master degree or above, 18 advanced certificate holders, and 43 intermediate certificate holders, majored in paper production, chemistry, materials, electromechanical and other disciplines. Each technical section under the centre is equipped with technical leaders (mainly doctors). The innovation centre comprises key laboratories, product and material technology research laboratories and four pilot bases, and a complete infrastructure covering product test system, material test system, pilot test system and data information system.

Hengan innovation centre structure





In 2018, Hengan adhered to the "consumer-oriented" market idea and continued to develop healthy and safe products:



Hengan introduced its new product: Hearttex wet and dry napkin. This alcohol-free soft cotton napkin is specifically designed for infants with high hygroscopicity, which is safe for baby.



Learning from the Chinese prescription essence in Shen Nong's Herbal, Hengan's sunshine forest laundry detergent, featured anti-acarid and mould proof, comprises the essence of borneol cinnamomum camphora (known as the plant gold), and is able to effectively remove mites from clothing and inhibit the growth of staphylococcus aureus and other five pathogenic bacteria. Therefore, it is healthy and natural.

In the future, the Group is committed to further strengthening the brand building and establishing a national brand with responsibility that is worthy of consumer's trust based on the development of the nation.

2. Quality assurance

1) Quality management

Quality culture building

For the long-term quality management, Hengan will always follow the principle of "Realising first-class quality, consistent improvement, striving for excellence and leading the standard of sanitary product industry", and aim at "Driving quality management as its core competitiveness to raise the Group to be the top enterprise in household articles industry". It will vigorously absorb advanced ideas from others and learn from excellent practices, and incorporate scientific quality management methods and successful experience into its management system to enrich its quality culture and to form "123" quality culture with the Group's identities and "123" culture in quality management team.



Quality assurance operation

Hengan strictly complies with the legal requirements of Product Quality Law of the People’s Republic of China 《中華人民共和國產品質量法》. The Group maintains complete quality control system and safeguards the quality level and quality compliance for its products by integration of three management systems, comprehensive quality management, standardisation, target management introduce as well as regular quality training and identification of laws and regulations.



As of 2018, 100% of all 25 companies in scope had established and passed GB/T19001/ISO9001 quality management system certification.

2) Chemicals safety

Strictly complying with national and industry-related regulations on chemicals management and following normative documents including Administrative Measures for Oils and Chemicals 《油類、化學品管理辦法》, Material Safety Index List 《材料安全指標清單》 and Additive Limitation List 《添加物限度清單》, the Group has made improvement on chemicals procurement, storage, usage and disposal to meet relevant standards and requirements.

Chemicals procurement

Regarding chemicals procurement,

- The Group gives priority to non-toxic and non-hazardous chemicals that cause less pollution;
- The Group applies high standards on supplier selection, requesting them to offer qualified business license and related “safety production license” or “business certificate”;
- Related Material Safety Data Sheet (MSDS) should be provided;
- Suppliers of chemicals with direct contact with paper products are required to present certificates of non-toxic and non-hazardous chemicals issued by authoritative testing institutions or provincial centres for disease control and prevention.

During the reporting period, 100% of suppliers of the Group met the requirements above.



Chemicals management

With regard to chemicals daily management, the Group has set up specific storage warehouse equipped with corresponding facilities and appointed responsible staff. Hazardous chemicals for temporary storage must be put in a fixed location, and the storage method and quantity must conform to the national standard Rules for Storage of Hazardous Chemicals 《常用化學危險品貯存通則》, and daily inspection must be conducted. Hazardous chemicals must be offered according to a strict quota and the record must be kept. When storing, transporting, packaging and labelling hazardous chemicals, Provisions on Hazardous Chemicals Warehouse Management 《危險化學品倉庫管理規定》 must be obeyed.

Chemicals usage

The Group strictly applies international, national and industry-related regulations on chemicals management to chemicals usage during production. Based on international standards, it has established internal Material Safety Index List 《材料安全指標清單》 and Additive Limitation List 《添加物限度清單》, and enhanced the inspection for chemicals in raw materials and products:

- 1) Use of hazardous substances are prohibited in the production process;
- 2) The chemicals applied must meet with the relevant national security indicators, and upstream suppliers are required to comply with Material Safety Index List 《材料安全指標清單》;
- 3) Transportation vehicles must be hygienic and safe;
- 4) Chemical additives must abide by Additive Limitation List 《添加物限度清單》. Use of chemicals that are harmful to human being are strictly forbidden by the Group, e.g. NPE is forbidden in any raw materials for production.

Chemicals phase-out

The Group takes the initiative to obtain external information such as industry standards, EU standards and the elimination of hazardous chemicals by external institutions, and conducts daily records and regular meetings to develop and update Hazardous Chemicals List 《危險化學品清單》, specifying identified highly toxic chemicals, highly irritating and corrosive chemicals, inflammable and explosive chemicals and general hazardous chemicals. According to the information above, it phases out chemicals and seeks for safer alternatives.

Product safety test

In accordance with Material Safety Index List 《材料安全指標清單》, GB15979-2002 Hygienic Standard for Disposable Sanitary Products, GB/T2912.1-2009 Textiles — Determination of formaldehyde — Part 1: Free and hydrolysed formaldehyde (water extraction method), Hygienic Standard for Cosmetics (2007) 《化妝品衛生規範》 (2007年版), ISO 10993-10: 2010 Biological evaluation of medical devices — Part 10: Tests for irritation and skin sensitisation, European Pharmacopoeia (EP), United States Pharmacopoeia (USP) and other domestic and foreign testing standards, the Group conducts tests regarding chemicals biological safety, human stimulus sensitisation safety and chemical safety indexes, and issues corresponding safety reports.

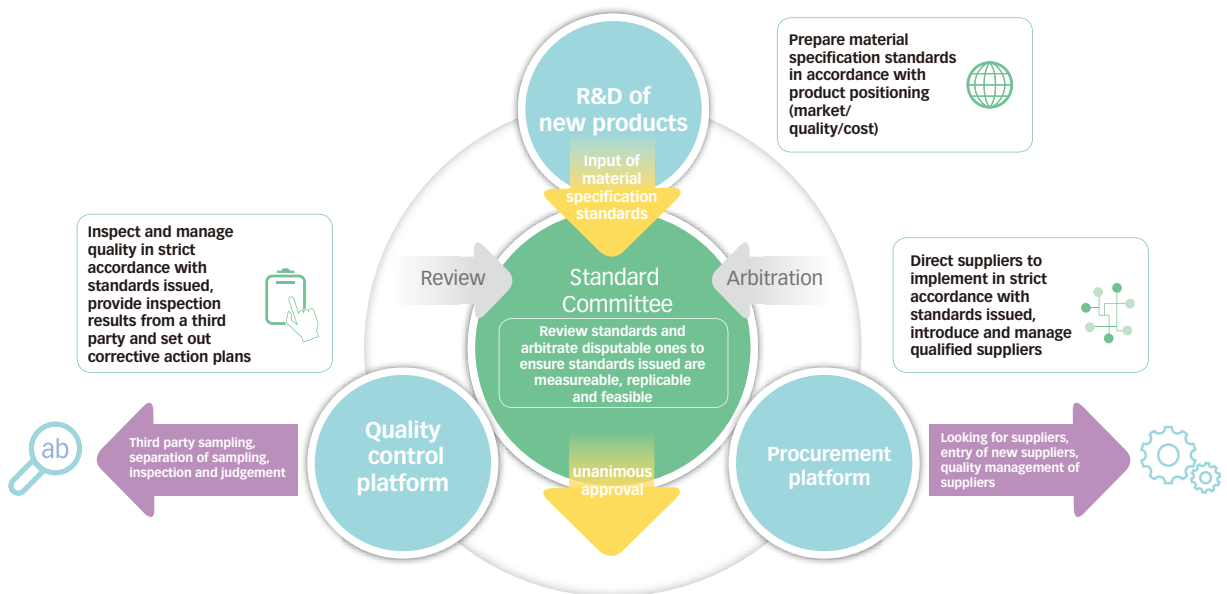
The Group's Quality Management Department assumes responsibility of regular raw material and product inspection and evaluation, and defects management and control. If any defects found, the Quality Management Department will notify warehouse staff of the test result and the latter will isolate, mark and dispose of the defects according to the Accidents, Incidents, Non-Conformance to Control Procedures 《事故、事件、不符合控制程序》.

3. Procurement responsibility

1) Supply chain management

With the continuous progress of the 3rd management reform for the Group and the establishment of platform strategy, Hengan has set up a procurement platform committed to providing fair and transparent end-to-end procurement services. The Group has formulated Procurement Platform Management Regulations 《採購平台管理規定》, which is based on the positioning and business targets of the procurement platform and aims at setting standards for procedure connection, function orientation, organisational structure, code of conduct and implementation assurance. It is committed to establishing standard business modules to ensure the standardisation, specialisation and visualisation of the procurement platform.

Separation of three powers



Supplier management

In terms of supplier management, the Group classifies suppliers into transactional supplier, cooperative supplier and strategic supplier according to material importance and supplier dependency, and according to suppliers' annual performance rating (poor, fine, excellent), it further divides them into four levels, i.e. to-be-eliminated supplier, to-be-cultivated supplier, optimal supplier and core supplier, laying the foundation for realising differentiated supplier management.

With regard to supplier approval, the Group complies with Supplier On-Site Inspection Management Measures 《供應商現場考察管理辦法》 to require suppliers to provide the following information, documents and records: factory status, quality policy and objectives, organisational structure and personnel allocation, production process, hardware facilities, customer composition, enterprise qualification, quality management system, production process management, traceability process and recall management, fire control management and pest control and prevention, chemicals and waste management. The Group will carry out assessment upon quality management, environmental and social risk, technology R&D and service management, etc.



Supplier approval criteria mainly include:

- ★ Certificates: certificate of environmental impact assessment, certificate of work safety standardisation, pollutant discharge permit, fire safety permit, ISO9001, ISO9002, ISO14001, SA8000, OHSAS18001, UL, VDE, EMC, CCEE and CE.
- ★ Special qualifications required by special business: printing business license required by prints, relevant construction class qualification certificate required by civil engineering and construction, pressure vessel class certificate required by pressure vessels, explosion-proof qualification required by explosion-proof business, and firefighting qualification required by firefighting industry.
- ★ Agent, trader or service provider must provide relevant distribution authorisation certificate, and manufacturers' qualification certificate for production and operation, production or business scope and main products and commodity catalogue.
- ★ Documents that prove chemicals are toxic-free.

The Group's Quality Control Platform and Procurement Platform conduct supplier on-site assessment jointly. During the process of assessment, the Group involves environmental and social risks into assessment indicators and focuses on whether suppliers have passed Environment Management System Certification, whether environmental and sanitation conditions are qualified, whether regulations conform to the requirements of relevant laws and regulations, and any incidents of environmental pollution, gender discrimination or child labour occurred in recent three years.

The Group conducts monthly performance evaluation of suppliers and promotes continuous improvement of suppliers' performance based on the evaluation results. The Group carries out annual on-site audit of qualified OEM suppliers, and conducts daily inspection of qualified suppliers with quality/delivery issues to control its quality and supply risks and assist suppliers in continuous improvement.

The Group will initiate the freezing/withdrawal procedure against suppliers that fail daily inspection/on-site annual review, monthly/annual performance evaluation, that present serious quality issues, behave illegally, etc. These suppliers will be removed from the list of qualified suppliers and must be subject to the entry procedure prior to being putting back again on the list. The Group eliminated 81 suppliers in 2018 to maintain its suppliers' quality.

Under the premise of ensuring the quality of production materials, the Group prefers local suppliers.

Supplier communication

The Group delivers sustainable development ideas and experience regarding supply chain by supplier conferences, supplier visits and on-site investigation and exchange. It also vigorously learns from advanced experience and latest technologies at home and abroad to keep pace with the times.



The Group held the 2017-2018 annual supplier conference with the theme of "Fairness, green and win-win" on 15 January 2018 to share Hengan green products and quality management experience and discussed sustainable quality management system and 3M production safety management with suppliers. It delivered the development cooperation idea of "Fair cooperation, green development and win-win growth" in the conference.



2) **Sustainable forest management**

Forests are among the most significant natural resources of the earth and the most important legacies for future generations.

Hengan is committed to helping suppliers promote forest certification, requires suppliers to abide by the Group’s paper pulp purchase standards and encourages them to adopt Forest Stewardship Council (FSC) standards. Regular on-site supplier visits are arranged to promote sustainable forest stewardship. Our suppliers prepared relevant internal policies and procedures to guide sustainable forest management and harvesting practices, trace and verify the origin and legality of all wood raw material worldwide. In 2018, more than 99% of wood pulp we purchased won the forest certificate by FSC.

Following the principle of “Sustainable use of resources and strict control; protecting the environment and benefiting our society”, the Group strictly follows the FSC/COC Implementation Manual 《FSC/COC執行手冊》 the Group prepared according to FSC/COC certification requirements, in order to improve FSC certified materials and material content. The Group controls the production process and ensures that certified and non-certified products are clearly identified and isolated during the process of reception, storage, processing, transportation and sales. The Group further executes its business policy, targets and commitment by means of publicity and training, establishing a documented COC supervision system, and setting up special personnel to maintain system’s effective operation.

The paper products of the Group won the forest certificate by FSC in 2010, and passed 3rd parties’ certification audit every year. The proportion of FSC-certified paper products manufactured and sold by the Group recorded over 15% in 2018. In the future, the Group will increase the percentage of FSC-certified products catering to client requirements, government regulations or market trend, etc.

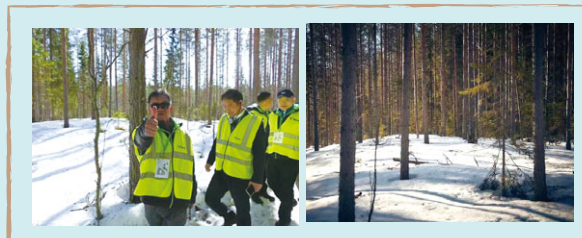


The materials applied for production should not contain the wood from the following sources:

- ✗ Illegal logging or illegal timber trading or forest products
- ✗ Forestry business violating tradition and human rights
- ✗ Destruction of high conservation value forests
- ✗ Significant usage conversion of forest plantation or non-forest land
- ✗ Introduction of genetically modified organisms into the forestry business
- ✗ Violation of the basic principles and declaration of rights of the International Labour Organisation

Visiting Metsä Fibre

The Group's leaders participated in the customer day activity organised by Metsä Fibre in April 2018. They visited the coniferous forest of Metsä Fibre in Finland, engaged in the discussion on sustainable forest management and took a close look at the sustainable forest management system.





4. Customer services

Hengan strictly abides by Law of the People’s Republic of China on Protection of Consumer Rights and Interests (《中華人民共和國消費者權益保護法》) and other laws and regulations, and follows the enterprise spirit of “Integrity, Diligence, Innovation and Dedication”. It is committed to the mission of “Growing with you for a better life” and continues to upgrade its services to fulfil customers’ needs.

1) Product information

According to Administrative Measures of Packaging Design (《包裝設計管理辦法》) and Product Packaging Layout Review Process (《產品包裝版面審核流程》), the Group will stringently review the following information on the package: product name, producer name, address, product performance standard, hygiene standard, product grade, bar code, hygiene license number, trademark, specification, quantity, production batch number and expiration date, certification mark, consumer service telephone and other information, in order to provide accurate information to consumers.

Product packaging layout review process



In accordance with FSC/COC Implementation Manual (《FSC/COC執行手冊》), the Group strictly regulates the use of FSC marks and effectively controls the usage of FSC marks in the process of printing, publicity and product marking to ensure that the usage of marks complies with FSC requirements and consumer’s right to know.



2) *Customer complaint*

Hengan has established and continues to follow Customer Complaint Control Procedures 《顧客投訴控制程序》, Customer Service Standards 《客服崗位服務標準》, Customer Complaint Handling Records 《客訴處理履歷》, Return Visit System for Customer Complaint 《客訴回訪制度》, Information Analysis 《信息分析》 and Employee Liable for Specific Quality Issue 《質量問題責任落實到人》 and other principles to resolve customer complaints rapidly and effectively. It has established Accidents, Incidents, Non-Conformance to Control Procedures 《事故、事件、不符合控制程序》, Product Quality Problem Recall Management Policy 《產品質量問題召回管理制度》 and Office Automation (OA) Process Flow to actively disclose information to relevant parties in a timely manner, inform to stop the production and sales of the product and recall defective products circulation or in the market when products failing to meet with safety standards or defective products appear in markets.



Customer complaints

1. Official Weibo for customer service
2. Official website and official customer service e-mail
3. System of customer service representatives to record calls from customers
4. Service hotline, such as 800 hotline and 400 hotline



Market tracking

1. Market monitoring and spot check mechanism: conducting spot check of the items sold by each production company of the Group and providing other first-hand marketing information.
2. Competitive product analysis mechanism: analysing the evaluation standards and the product quality of major competitors to optimise quality standards of the Group.



Compliant handling

In accordance with Customer Complaint Controlling Procedure, the Group has collected, summarised and given customer complaints feedback, ordered the responsible production company to take corrective and preventive actions and verified effectiveness of those actions.

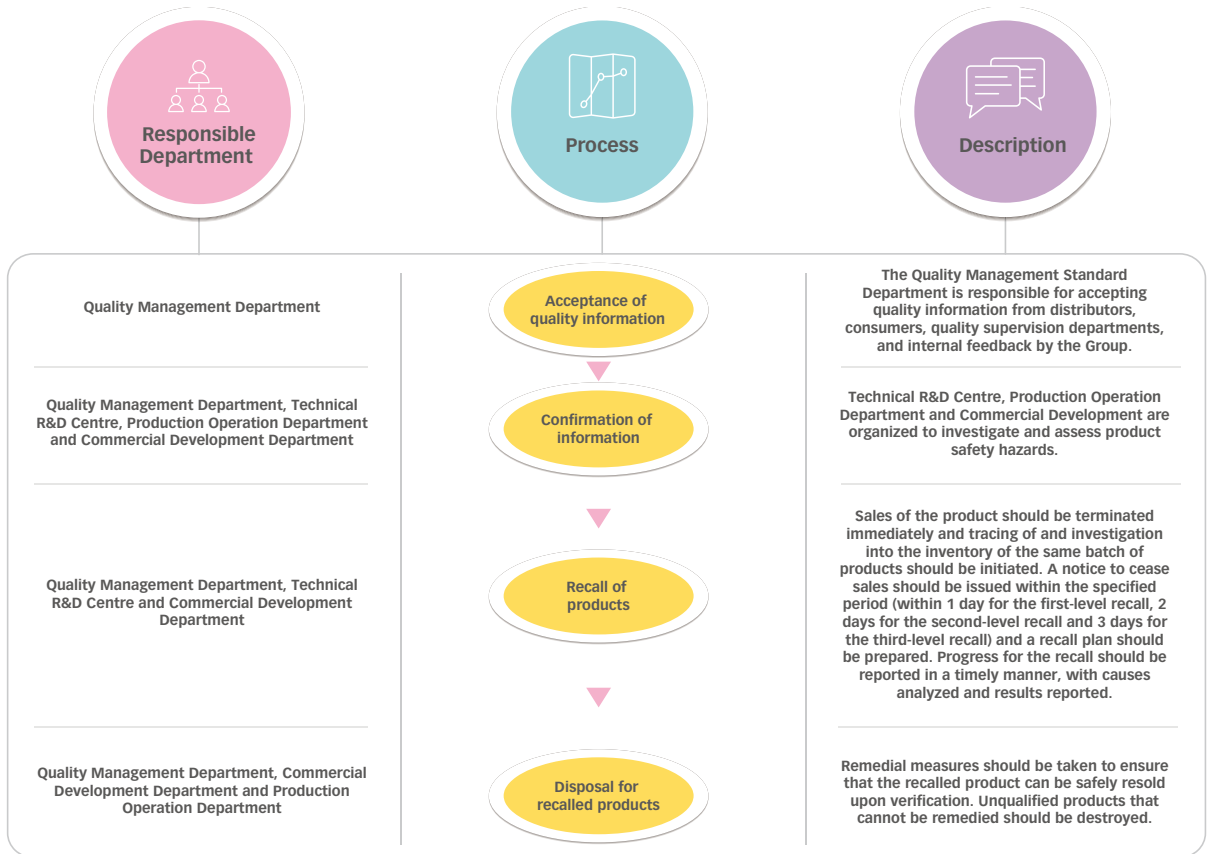


Product recall

Upon the discovery of any products failed to meet safety standards or defected products in the market, the Group proactively and timely discloses information to related parties to inform them to cease the production and sales of such products, and recalls defected products that have been distributed.



Recall Process



The Group did not engage in any product recall due to safety or health problems in 2018.

3) Intellectual property rights protection

The Group implements the Trademark Management Policy of Hengan Group 《恒安集團商標管理制度》 to regulate the design, application and use of the Group’s trademarks, as well as achieve effective management and maintenance of the trademarks, and scientific and efficient use the trademark resources, and prevent and combat the infringement of the Group’s trademarks. In addition, the Group set up a special anti-counterfeiting team to crack down fake or counterfeit products circulated in the market with the Group’s trademarks, so as to protect the Group’s rights and minimise the negative consequences of fake and counterfeit infringement.

As of the end of 2018, the Group has 158 valid patents, including 33 patents for invention, 113 patents for utility model, and 12 design patents. In 2018, a total of 7 confirmed property right infringement to the Group was handled through legal means, and the Group’s intellectual property rights were effectively protected.

4) Privacy protection

In strict compliance with the Law of the People’s Republic of China on Protection of Consumer Rights and Interests 《中華人民共和國消費者權益保護法》, Hengan keeps the personal information collected from customers strictly confidential. No employees shall disclose any confidential commercial information concerning business, production formula, technology and document of the Group as stated in the Hengan Group Personnel Management Policy 《恒安集團人事管理規定》. Any intentional disclosure of confidential information about business and technology of the Group, resulting in losses that the Group has suffered or will suffer, is deemed as serious violation of the rules and regulations of the Group, and employment contracts of employees involved shall be terminated.

D. HEALTH AND SAFETY

Hengan is committed to providing employees with a healthy, safe and comfortable working environment, and abides by the Labour Law of the People’s Republic of China 《中華人民共和國勞動法》, Law of the People’s Republic of China on Work Safety 《中華人民共和國安全生產法》 and 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》 and other laws and regulations. Hengan also developed internal Employees’ Occupational Health Management Measures 《員工職業健康管理辦法》 and other rules and regulations to protect employees’ health and safety. Hengan has established safety teams within many operating companies to train employees on safety regulations, purchase appropriate tools and arrange health checks for employees.

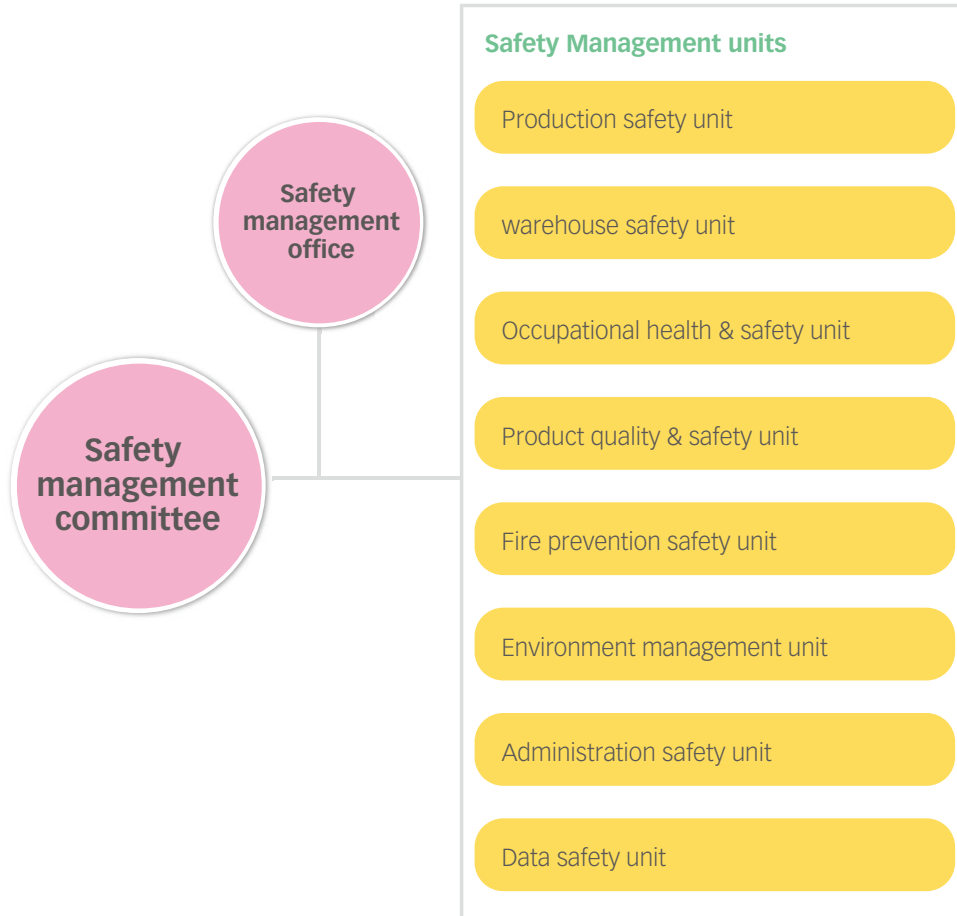
By the end of 2018, 17 companies of Hengan, accounting for 68% of production companies in scope, had established the OHSAS 18001 Occupational Health and Safety Management System and obtained the certification of the system.

1. Work Safety

The Group regards safety management as a major consideration of Hengan, implements relevant work safety regulations, and cooperates with local government departments to conduct work safety training and practice for each employee.

1) Safety management committee

In 2018, the Group newly established a Safety Management Committee, and sorted out the four major roles of the safety management system and five main activities, namely, safety decision-making-safety system policies-safety organisation and coordination-safety supervision-safety implementation, forming a safety management pyramid with layer-by-layer advancement and control, so as to reduce group security risks. The Safety Management Committee makes decisions on major safety incidents, major safety rectifications of plants, etc.





The Safety Management Office is responsible for organising monthly safety meeting and annual and semi-annual safety report meetings on which the overall safety status will be reviewed, the reporting units will report safety status including safety indicators, safety rectification implementation, safety risks and safety management solutions; relevant personnel will make assessments, give suggestions, propose rectification measures, blame units responsible for safety issues, and instruct follow-up safety work so as to control security risks.

2) Employee education on safety

Hengan strengthens the safety awareness and self-protection ability of all employees through safety training. According to the work requirements of each position, Hengan regularly issues various personal protection equipment, supervises and educates employees to wear them properly, determines the responsible person of each department for work safety and implements safety education for different aspects.

3) Fire prevention safety

The Group has established a safety team responsible for organising training on safety regulations, firefighting training and drills, and strengthening the safety awareness and self-protection capabilities of all employees.

In 2018, the Group carried out a series of activities related to employee health and safety such as firefighting drills.

4) Safety culture building

The Group actively learns from advanced work safety practices and experience of the industry, organises visits and experience exchanges to drive work safety.



Case: Visiting Zijin Mining

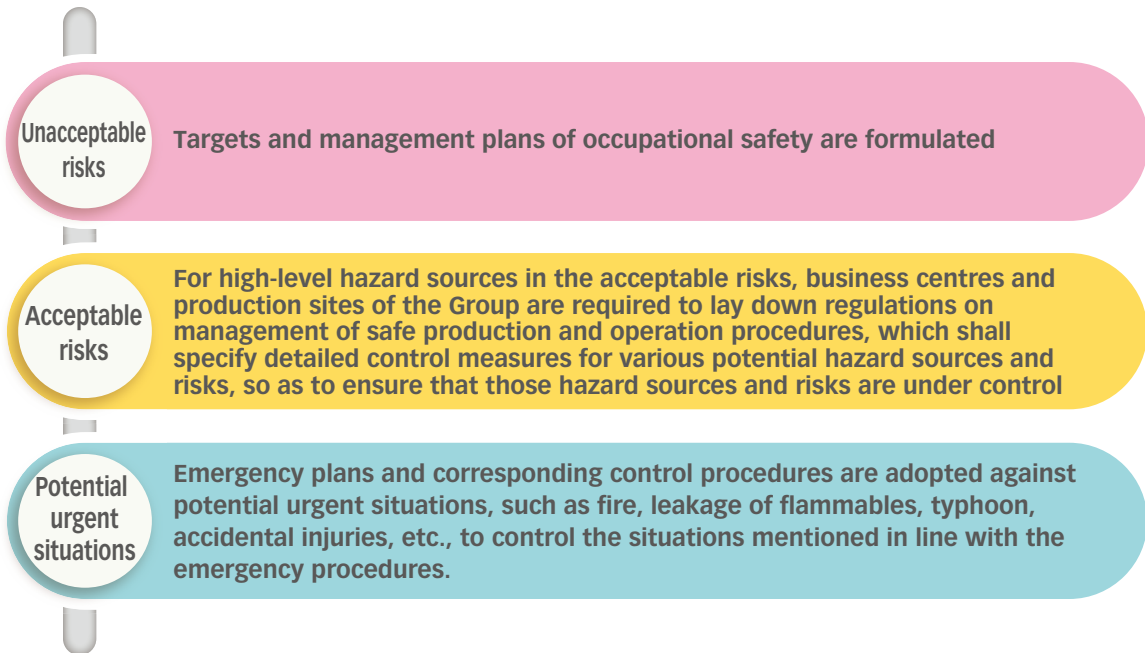
In 2018, staff in the Group’s headquarter have organised to visit 4 model enterprises on safety management, including natural gas power plants and nuclear power plants. For example, the Group staff paid a visit to Zijin Mining in November 2018, and learned the company’s safety publicity, marks, passages, safety experience and other related activities.



Communications between executives

2. Occupational health

It is regulated by the Group that existing vulnerabilities at the current workplace shall be identified and risk evaluation be carried out; necessary control measures are taken to eliminate and reduce risks. The Group classifies the equipment, facilities, working environment and hazardous matters at the workplace into physical, chemical, biological and social psychological hazard sources and adopts corresponding control measures as follows:



- Hengan provides a yearly medical examination for employees and reimburses the expenditure based on employee ranks;
- A third-party testing agency is entrusted to test the air and noise in the factory premises yearly; dedusting and exhaust devices are installed in facilities that generate dust and exhaust gas; for devices generate exceeding noise, the priority solution is to eliminate or reduce the noise sources, second is to control the noise transmission, and last is to require employees to wear protective appliances.

In 2018, the Group saw 93 work-related injuries and no work-related fatality.



E. GREEN DEVELOPMENT

1. Environmental protection

Hengan adheres to the green and low-carbon development concept, and integrates environmental protection with enterprise development. The Group strictly follows the Environmental Protection Law of the People's Republic of China 《中華人民共和國環境保護法》, Law of the People's Republic of China on Prevention and Control of Atmospheric Pollution 《中華人民共和國大氣污染防治法》, Law of the People's Republic of China on Prevention and Control of Water Pollution 《中華人民共和國水污染防治法》, and Law of the People's Republic of China on Prevention and Control of Solid Waste Pollution 《中華人民共和國固體廢棄物污染環境防治法》. The Group minimises the impact of production and operating activities on the environment, strives to achieve the goals of recycling and harmlessness during production and operation process, and continuously builds a green and harmonious environment.

For environmental management, since 2003, Hengan has established and implemented the ISO 14001 environmental management system, and accepted the supervision and review by third party certification institutions and regulatory departments every year.

As of 2018, the Group has a total of 20 enterprises-accounting for 80% of all production companies in scope- which have established and passed the ISO 14001 environmental management System accreditation.



1) Exhaust gas management

Hengan is committed to clean production to reduce the environmental impact caused by waste water, waste gas, greenhouse gases, hazardous and non-hazardous waste during the production and operation process of the Group. Pursuant to the Identification Control Procedure of Environmental Factors (《環境因素識別控制程序》), the Group identifies and evaluates the environmental factors which can be controlled and affected, confirms essential environmental factors, and controls those essential factors identified by the Group in accordance with the Monitoring and Measurement Control Procedure of Environment, Safety and Health (《環境安衛監視與測量控制程序》) when necessary, prevent or reduces the environmental impacts due to harmful environmental factors.

The waste gas emissions of Hengan mainly include waste gas emissions caused by fossil fuel combustion and dust emissions from production workshop during production process.

Each paper manufacturing base is promoting the use of the clean natural gas, and parts of the production processes are using foreign advanced equipment, recovering some of the particles during the production process, in order to reduce the waste gas emission to the greatest extent possible. As for the waste gas emission during boiler combustion, the Group requires each base to install a waste gas disposal unit, which equips with desulfurization and denitrification dust removal equipment in the coal-fired power plant, and effectively disposing the SO₂, NO_x and smoke to reach the standard of emission concentration stipulated in the Emission Standards of Air Pollutants for Thermal Power Plants (GB13223-2011) (《火電廠大氣污染排放標準》). Each paper production workshop is equipped with a de-dusting system imported from global leading markets such as Austria and Germany. The dust particle concentration of the working environment is only 3mg/m³, reaching the excellent level set in national standard for atmospheric environment quality.

Waste gas emissions due to paper production during the reporting period are disclosed as follows:

Waste gas due to paper production	2018	2017
NO _x (in tonnes)	331	179
SO ₂ (in tonnes)	79	121
Smoke (in tonnes)	70	7
Dust (in tonnes)	145	618

Notes:

- a) The Group conducted regular monitoring over NO_x, SO₂, smoke from natural gas boilers and dust from workshops as the regulator required in 2018, thus the further increased data accuracy.
- b) Thanks to the efficient dedusting system, dust emissions decreased substantially in 2018.

2) Waste water management

The waste water discharged by Hengan is mainly the production waste water and domestic waste water during the production process. The Group has developed the Waste Water Treatment Measure 《廢水處理辦法》. All the paper production companies under Hengan have built sewage treatment stations. The waste water is dealt with through slanting, air floatation, aerobic aeration, etc., thus meeting the discharge standard under the Discharge Standard of Water Pollutants for Papermaking Industry 《造紙工業水污染排放標準》 (GB3544-2008) before emission.



Water purification and recycling facilities of Hengan's papermaking companies

Hengan's subsidiaries adopt various measures to reduce the generation of waste water. Take Hengan's paper production companies as an example:

- All paper machines of the companies are equipped with advanced multi-disc filters imported from Germany, Austria and other countries;
- Small amount of waste water produced in paper production is biochemically treated, and then recycled to the paper production workshop after ultrafiltration and reverse osmosis, realising recycle and zero discharge of water resources; more than 99% of paper production waste water was recycled;



- The paper mills are set as education bases of environmental protection for primary and secondary school students and enjoy a good reputation in all sectors of society;
- The waste plaster from waste water treatment is treated so that it is no longer hazardous, sold to specialised companies and manufactured into egg trays and other products.

Waste water emissions due to paper production during the reporting period are disclosed as follows:

Waste water	2018	2017	National Standard GB3544-2008
Waste water emissions (in tonnes)	3,969,592	3,901,132	/
Emissions due to paper production:			
Intensity (tonne/tonne of paper)	2.8	2.7	20
COD emissions (in tonnes)	127	162	/
Intensity of COD emissions(mg/L)	44.3	64.2	80
N-NH ₃ emissions (in tonnes)	6	8	/
Intensity of N-NH ₃ emissions (mg/L)	2.0	3.2	8

3) Waste management

Hengan classifies and recycles solid waste according to the Group's Solid Waste Management Measures 《固體廢棄物管理辦法》. Hengan pays special attention to the scientific treatment of hazardous wastes included in the National Catalogue of Hazardous Waste 《國家危險廢物名錄》, such as waste cleaning agents, and entrusts qualified third parties to carry out detoxification treatment to reduce environmental pollution.

Measures of detoxification treatment are as follows:

- selling pulp to external paper box mills for recycling;
- using sludge for incineration to produce electricity;
- selling gypsum to cement factories for cement manufacturing;
- selling fly ash to other companies for refining rare metals;
- selling slag for brick manufacturing;
- Domestic waste was treated safely by environmental sanitation department, etc.

Hengan has taken various measures to reduce the generation of waste, such as reduction of absorption of cotton and polymers in vacuuming by improving mesh screens, negative pressure, fans, pipes and conveyor belts, which greatly reduced the amount of waste generated in addition to lowering costs.

Waste emissions of the Group during the reporting period are disclosed as follows:

Waste emissions	2018	2017
Hazardous waste emissions (in tonnes)	837	884
Hazardous waste intensity (kg/revenue in RMB10,000)	0.41	0.45
Non-hazardous waste emissions (in tonnes)	204,307	107,562
Non-hazardous waste intensity (kg/revenue in RMB10,000)	99.6	54.3

Notes:

- a) Hazardous waste of the Group includes tubes, used batteries, cartridges, waste oil (such as lubes, engine oil), used ink bottles, used additive bottles, used bottles etc.; non-hazardous waste includes sludge, wetproof, cinder, production waste, domestic waste, gypsum, coal ash, etc.;
- b) Non-hazardous emissions and intensity of 2017 have been recalculated to rectify the variances identified gypsum emission collection in 2017. Non-hazardous waste emissions increased due to the inclusion of Weifang Hengan Thermal Power Co., Ltd and Xinjiang Hengan Paper Co., Ltd. in the reporting year.

2. Tackling climate change

Hengan is well aware of the importance of tackling climate change and is constantly striving to control and reduce the carbon emission of its companies and products, and has gained wide recognition in the industry. On the 2016 Green Low Carbon Development and Reform Forces Summit (2016年度綠色低碳發展變革力峰會) sponsored by World Economic and Environmental Conference (WEC), Hengan Group was granted the “International Carbon-Value Award (國際碳金獎)”, and Mr. Hui Lin Chit, the Chief Executive Officer of Hengan Group, was awarded “Carbon-Value Reformer Award (碳金變革者獎)”; Hengan is the first and only company in the household paper industry to be recommended in the 7th World Economic and Environmental Conference, and the “Hearttex” Tea-fragrant and Silk-like tissue was the designated tissue paper used during the conference; Hengan (China) Paper Co., Ltd. has been rated as one of the 12 best companies in energy-saving and emission reduction of the paper industry in Fujian Province for many years; the Group also received the “Carbon footprint” certificate for its contribution in this course issued by the China Paper Association. Hengan performed well as the first-time responder in environmental disclosure in the year of 2018 and has been rewarded as CDP 2018 New Star Award on Climate Change Mitigation by CDP China. This award recognises how well Hengan performs in acting on climate change risks and opportunities and in accelerating sustainable development.



1) Product carbon footprint

As an initiator of the “Carbon footprint” course of China’s paper industry, Hengan Group takes environmental protection and sustainable development as its mission, focusing on the carbon footprint management of products throughout their life cycle (from raw materials, production to distribution), exchanges and interacts with large multinational pulp companies in Europe on sustainable development and carbon footprint management, and employs EU’s ecological standards as self-regulatory requirements.



Upstream carbon emission management

The Group incorporates environmental protection into the access and assessment criteria of suppliers to encourage them to establish the ISO 14001 environmental management system, formulate environmental emergency plans, and ensure compliance with national environmental regulations and standards. The Group is engaged in enhancing suppliers' awareness of green and low carbon development and promoting the sustainable development of the supply chain through activities such as supplier conferences and supplier trainings.

Case: Encouraging upstream companies to practice low carbon production

The Group encourages suppliers to carry out low-carbon projects and delivers the concept of carbon lowering and emission reduction through supplier conferences. The picture on the right shows the outstanding practice and successful experience of an excellent supplier of the Group in energy conservation, environmental protection and emission reduction:



Successful coal-to-gas project



Solar heating plates

Carbon emission management in production

The major greenhouse gas emission of Hengan is the energy consumption, including coal, natural gas, electricity and steam, during the production process. In order to reduce greenhouse gas emission, the Group strictly complies with the rules in respect to the Work Plan for Greenhouse Gas Emission Control during the 13th Five-Year Plan Period (《「十三五」控制溫室氣體排放工作方案》) by enhancing the utilization efficiency of equipment and energy, reducing energy consumption, using clean energy and refining its management in production.

Listed in the first batch of key emission units in Fujian Province, Hengan (China) Paper Co., Ltd. actively cooperates in the carbon emission management of the regulatory agencies, accepts the verification of the company's greenhouse gas emission report by the supervision agency, and complies with the requirements of Greenhouse Emissions Calculation Methodology and Reporting Guidelines for Paper and Paper Products Manufacturers (Trial) (《造紙和紙製品生產企業溫室氣體排放核算方法與報告指南(試行)》).

All workshops of Hengan's paper production sector are using state-of-the-art energy-saving facilities, actively making use of solar energy, and have well achieved energy-saving and emission reduction:

- German-imported end cap insulation and energy saving system are adopted to all machines, saving 50,000 tons of steam and reducing carbon dioxide emissions by about 15,000 tons per year;
- All natural gas systems are equipped with an imported waste heat recovery system that reduces the temperature at the rear of the machine from 200°C to 110°C, producing 14,688 tons of steam and reducing CO₂ emissions by 4,500 tons per year;



- It is required that all motors should reach the second-level efficiency of the national energy efficiency rating. Advanced frequency conversion power saving technology is adopted to most of the motors, and most advanced turbine technology in the world is adopted to vacuum pump, saving more than 20% of electricity;
- By using the roofs of plants and warehouses to run the green solar photovoltaic power generation, the Group 's annual power generation reaches about 2 million kWh, and each large machine's electricity consumption per ton of products is 700-800 kWh, which is far ahead of the peer level of 1,000-1,200 kWh;
- The Group possesses the world's leading boot-pressing technology imported from Finland that increases the dryness of the paper by 2% and greatly reduces the drying energy, saving about 8% of the drying energy consumption, and reducing CO₂ emissions by about 2,100 tons per year.

Downstream carbon emission management

The Company reduces greenhouse gases generated from transportation and logistics by optimising logistics efficiency and adopting a variety of transportation tools. In addition, Hengan guides consumers to properly handle product packaging materials and waste and enhances consumers' environmental awareness with instructions on product packaging labels.

Greenhouse gases emissions of the Group during the reporting period are as follows:

Greenhouse Gases (GHG)	2018	2017
Direct emissions (Scope 1) (tCO ₂ e)	959,133	346,757
Energy indirect emissions (Scope 2) (tCO ₂ e)	802,040	762,156
Total GHG emissions (tCO ₂ e)	1,761,173	1,108,913
GHG emission intensity (tCO ₂ e / revenue in RMB10,000)	0.86	0.56
Emissions due to paper production:		
GHG emissions (tCO ₂)	1,232,226	943,995
GHG emission intensity(tCO ₂ e/tonne of paper)	1.20	1.03

Notes:

- The greenhouse gases emissions mainly come from Scope 1: direct emissions, including anthracite and natural gas consumed during the production process; Scope 2: energy indirect emissions: electricity, steam and heat. Greenhouse gases emission is measured by carbon dioxide equivalent according to the Guidelines for the Calculation and Reporting of Greenhouse Gas Emissions from Paper and Paper Products Manufacturers (Trial) 《造纸和纸制品生产企业温室气体排放核算方法与报告指南(试行)》 issued by the National Development and Reform Commission;
- Since the paper production sector's greenhouse gas emissions account for a relatively high proportion of the Group's environmental KPIs, the greenhouse gases emissions and intensity of the paper production sector are separately disclosed here;
- Greenhouse gases emissions increased due to the inclusion of Weifang Hengan Thermal Power Co., Ltd and Xinjiang Hengan Paper Co., Ltd. in the reporting year.



3. Resource conservation

Hengan is committed to recycling resources as much as possible in the product life cycle (R&D, production and demise) and pursues energy conservation and emission reduction constantly. The Group formulated the Energy Conservation and Consumption Reduction Management Policy of Hengan Group 《恒安集團節能降耗管理制度》 to direct the Group to use various energy in a scientific and reasonable way. Relevant functional departments of the Group are required to collect, analyse and summarise data on a regular basis. Based on the data, the departments should adopt targeted energy-saving and water-saving measures to improve the resource use efficiency.

1) Energy conservation

The major energy consumption of Hengan is the electricity, steam, coal and natural gas consumption during the production process. Hengan strictly abides by the Law of the People's Republic of China on Energy Conservation 《中華人民共和國節約能源法》 and strives to improve energy efficiency and energy performance continuously.

The energy conservation measures adopted by the Group include:

- Residual heat boilers are installed in the production workshops to recycle the residual heat generated from the combustion of natural gas for the use of generating steam, which significantly reduces the amount of steam to be purchased;
- Water ring vacuum pumps are extensively replaced with turbines, greatly reducing energy consumption;
- The use of dryer cap heat preservation technology not only reduces the heat loss of steam, but also cuts down the amount of steam to be purchased;
- Frequency-conversion energy-conservation technology is widely used in all factories to reduce power consumption;
- Appropriate measures are taken to optimise process based on technology improvement for power conservation by increasing the first time yield and preventing reworking.

In 2018, the Group selected pilot production lines in Shandong province and Wuhu city to carry out vacuum fan modification. Two 130KW vacuum pump units were replaced by one large vacuum pump with power of 110KW, which directly reduces the electricity consumption of each production line by 20KW. Through the modification, not only a certain amount of electric energy is saved, but also the awareness of energy saving and consumption reduction of the technical personnel of each subsidiary is improved.

Energy consumption of the Group during the reporting period is shown as below:

Energy type	2018	2017	National standard advanced GB31825-2015
Natural Gases (square meter)	93,075,635	83,493,209	/
Anthracite (in tonnes)	359,959	86,410	/
Purchased electricity (kWh)	97,511	99,872	/
Purchased steam and heat (GJ)	1,754,677	2,364,633	/
Total energy consumption (MWh)	4,768,674	3,110,510	/
Energy consumption intensity (MWh/revenue in RMB10,000)	2.3	1.6	/
Emissions due to paper production:			
Total energy consumption (in tce)	379,136	340,929	/
Energy consumption intensity (in tce/tonne of paper)	0.37	0.37	0.42

Notes:

- The total energy consumption of the Group is calculated based on the use of natural gas, anthracite, purchased electricity, purchased steam and heat, in combination with the recommended values for the relevant parameters of commonly used fossil fuels in Appendix 1 of Guidelines for the Calculation and Reporting of Greenhouse Gas Emissions from Paper and Paper Products Manufacturers (Trial) 《造紙和紙製品生產企業溫室氣體排放核算方法與報告指南(試行)》 issued by the National Development and Reform Commission;
- Energy consumption increased due to the inclusion of Weifang Hengan Thermal Power Co., Ltd and Xinjiang Hengan Paper Co., Ltd. in the reporting year.
- Since the paper production sector's energy consumption accounts for a relatively high proportion of the Group's environmental KPIs, the energy consumption and intensity of the paper production sector are separately disclosed here;
- The paper production sector's energy consumption per unit of paper product is 12% lower than the requirement for advanced level ($\leq 420\text{kgce/t}$) set in Energy Consumption Limit per Unit Product of Pulp and Paper 《製漿造紙單位產品能源消耗限額》 (GB31825-2015), which is at the leading level in the industry.

2) Water conservation

Hengan's water consumption is mainly from production and domestic water. With tap water and reservoir water as water source, there is no issue in sourcing water that is fit for purpose. The Group strictly abides by the provisions of laws and regulations such as the Water Law of the People's Republic of China 《中華人民共和國水法》 and continues to evaluate and apply water-saving technologies to reduce water consumption. To improve the water conservation awareness of all employees, water conservation labels are set in workshops and living areas.

Case: Increasing water production rate

A water backwashing tank was built in the Shandong Purification Plant for sedimentation, by which the supernatant water is pumped back to the clear water tank, increasing the water production rate from 90% to 95%.



Original purification equipment



Water backwashing tank



Water consumption of the Group during the reporting period is shown as below:

Water	2018	2017	National standard limit GB/T18916.5
Total water consumption (in tonnes)	9,237,367	7,166,876	/
Water consumption intensity (in tonne/ revenue in RMB10,000)	4.5	3.6	/
Emissions due to paper production:			
Water consumption (in tonnes)	6,309,774	5,610,030	/
Water consumption intensity (in tonne/ tonne of paper)	6.1	6.1	30

Notes:

- Since the paper production sector's water consumption accounts for a relatively high proportion of the Group's environmental KPIs, the water consumption and intensity of the paper production sector are separately disclosed here;
- Water consumption increased due to the inclusion of Weifang Hengan Thermal Power Co., Ltd and Xinjiang Hengan Paper Co., Ltd. in the reporting year;
- The water consumption per ton of paper of Hengan's paper production sector is 80% lower than the national standard GB/T18916.5, Water Quota Part 5: Paper products (《取水定额第5部分：造纸产品》).

3) Raw material management

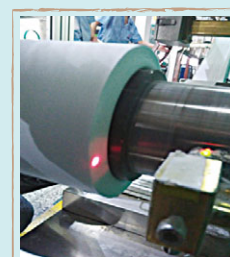
In order to reduce waste in the processing of paper, Hengan sets consumption standards for each unit and each unit product of the packaging materials and raw materials to reduce wastage, evaluates the key performance indicators on a monthly and annual basis and maintain a reward and punishment system based on the evaluation results. The salary of employees of different positions is directly related to whether their material consumption is over the standard, which comes to good results.

In the production of sanitary products, Hengan has developed a material consumption assessment system for employees from general managers to operators. Whether the material consumption exceeds the standard or not is directly linked to the salary of each position. Guided in this way, employees of each position are willing to control material consumption and reduce the discharge of leftover.

In 2018, the Group launched a series of lean improvement projects to enhance material utilisation:

Case: Automatic splicing improvement for tailing control

In respect to the frequent failure of material splicing that results in many tailings and high material consumption, the Group replaced the original photoelectric detector with laser detector to improve detection accuracy and reduce differences. After the improvement, differences are effectively reduced, and the tailings are controlled at 3-6 meters.





4) *Packaging material management*

To reduce waste during production, the Group has formulated consumption standards for each department and product in terms of the packaging materials and raw materials. It has evaluated the key performance indicator on a monthly and annual basis. A merit/demerit system has been introduced, which is directly linked with bonuses based on the evaluation results. This encourages the employees in different positions to take the initiative to control material consumption, effectively reducing the quantity of leftover materials.

Measures introduced to reduce consumption of packaging materials in production of sanitary products include:

- Automatic packaging machines are extensively introduced, which improves productivity and reduces waste generation;
- The edge length of medium-sized packaging bags is shortened by the use of machines instead of manual work;
- Carton boxes for product packaging are piled up in an optimised manner so as to minimise the space to be occupied;
- Carton boxes with excessive height or width are replaced after stock count so as to reduce wastage.

Packaging materials consumption of the Group during the reporting period is shown below:

Packaging materials	2018	2017
Total packaging materials used (in tonnes)	92,172	76,282
Intensity of packaging material use (in tonnes/revenue in RMB10,000)	0.04	0.04

Note:
Due to increased production in 2018, the packaging materials used increased accordingly.



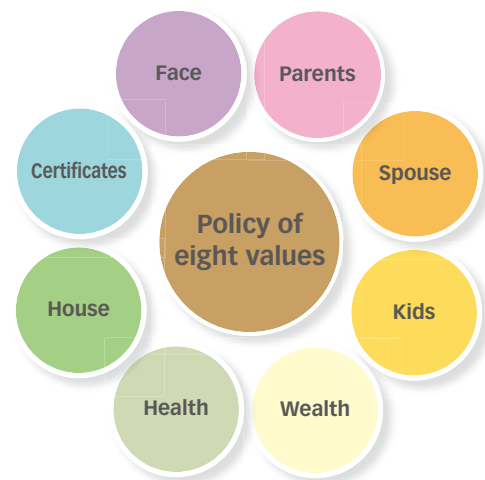


F. EMPLOYEE CARE

The Group adheres to the “people-oriented” principle, insists on the implementation of a fair, just and open employment system to recruit employees needed by the Group, and provides employees with reasonable compensation and benefits and clear career promotion channels so as to create good working atmosphere. Hengan also has built the Sunshine Community to safeguard the legitimate rights and interests of employees, and has established and designed in depth the structure of “Three columns” platform to promote the realisation of employees' self-innovation. In regular working days and holiday seasons, the Group provides diversified activities for employees to put employee assistance down to earth and enhance their sense of belonging and happiness.

1. Employment

Talents are the primary resources. Hengan strongly believes that maintaining positive relationship with employees is one of the keys to success for an enterprise. Hengan values labour, respects talents and strictly complies with the Labour Law of the People’s Republic of China 《中華人民共和國勞動法》 and the Labour Contract Law of the People’s Republic of China 《中華人民共和國勞動合同法》. The Group has proactively implemented a package of management systems for human resources, including Hengan Group Personnel Management Policy (《恒安集團人事管理規定》), Hengan Group Remuneration Management Policy (《恒安集團薪酬管理規定》), and Hengan Group Transparent Management Policy (《恒安陽光管理制度》) to provide competitive salaries, welfares and comprehensive training programmes for developing full potential of the employees and bringing out the best in them. In addition, the Group cares about physical and psychological health of employees and has carried out activities showing care for its employees to increase the sense of belonging and create a harmonious working environment.



The Group put forward the Policy of eight values for employees to realise their wills of filial piety, harmonious marriage, loving kids, satisfying work, happy learning, physical and mental health and decent living.

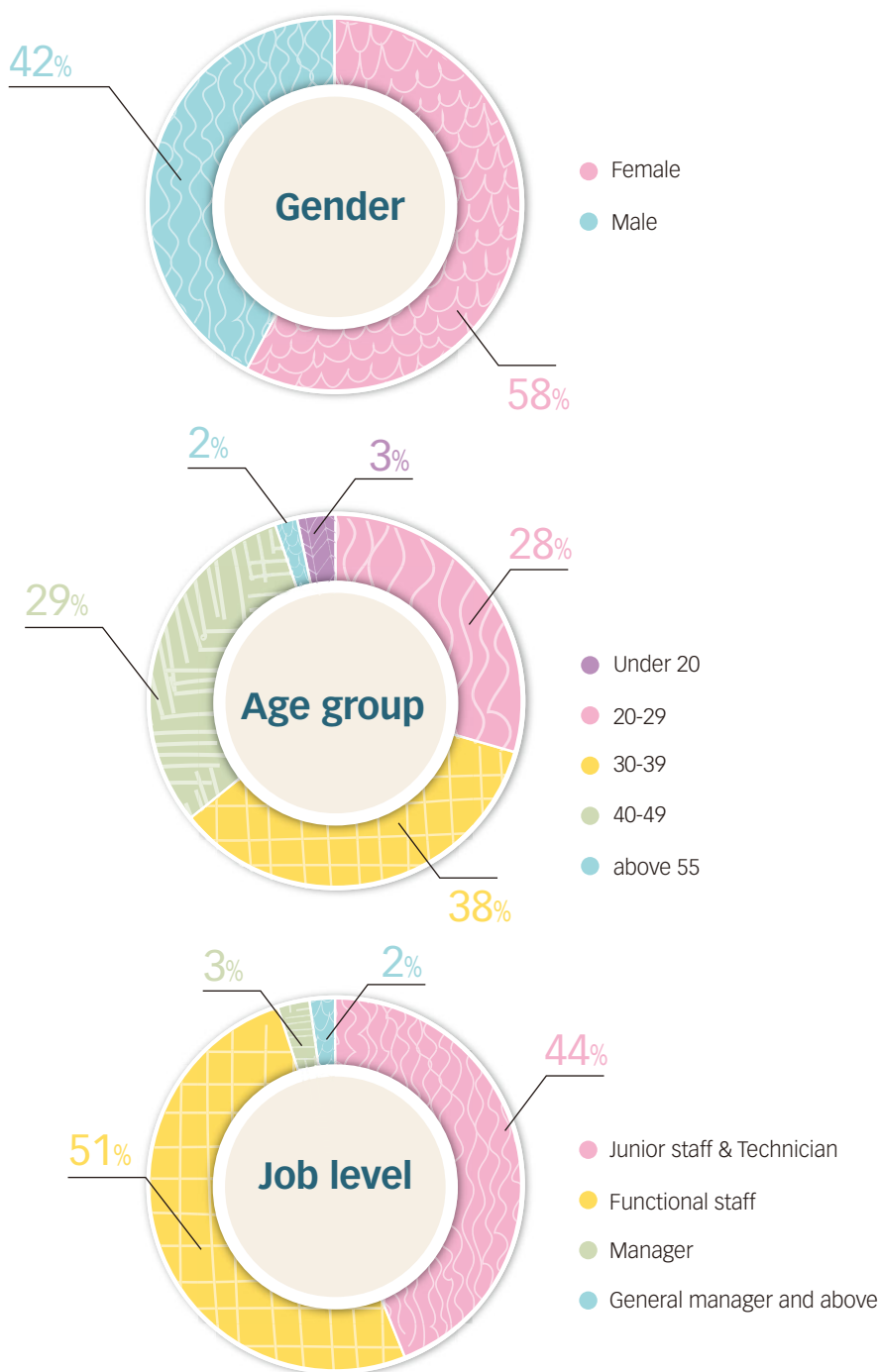




1) *Recruitment and dismissal*

Hengan provides all employees with equal opportunities, fair treatment and complete benefits, so that employees can grow with the Company; Hengan will not arbitrarily dismiss any employee, and the rights and obligations of Hengan and employees are clarified in the labour contract to protect the legitimate rights and interests of employees and build a harmonious and stable labour relations.

As of the end of 2018, the workforce of the Group totalled about 23,000 and numbers of employees by gender, age group and job level are as follows:





2) *Remuneration and benefits*

In accordance with the Hengan Group Remuneration Management Policy 《恒安集團薪酬管理規定》, the remuneration of the employees of the Group is no less than the local minimum wages, and takes into account factors such as responsibilities, capacity, knowledge and experience of the employees, to confirm a relevant grading of remuneration based on their relevant job titles or grading in the remuneration standard table. On this basis, further consideration on internal balance of salary and overall performance will be taken.

The Group provides social security for employees in a labour relation with the Group; social security base, insured items and contribution rate are implemented according to the relevant national requirements. If necessary, commercial insurance will be applied for certain employees.

In addition, employees enjoy the following benefits:

- subsidies for high temperature from June to September every year;
- an allowance for cleaning uniform, which is granted once a month to for production workers;
- uniforms and necessary personal protection equipment issued at employees' embarkation;
- family visit reimbursement for senior staff or above;
- a share option scheme to enable employees to grow with the company.

3) *Working hours and holidays*

Employee working hours are strictly in compliance with relevant national laws and regulations. If overtime work are needed, employees participating overtime work should be volunteers and overtime pay should be paid according to relevant regulations. On New Year's Day, Spring Festival, Qingming Festival, International Labour Day, Dragon Boat Festival, Mid-Autumn Festival, National Day and other statutory holidays as stipulated by laws and regulations, employees of Hengan can take leaves accordingly.

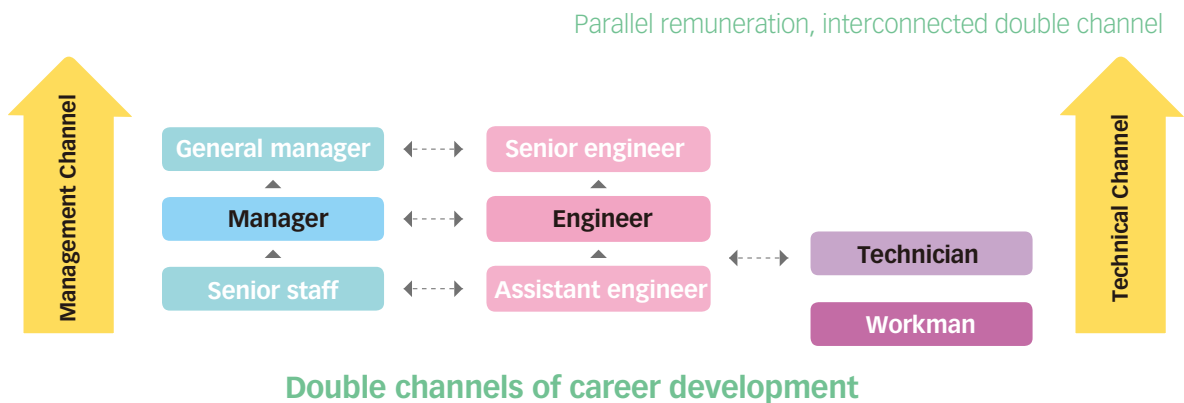
4) *Promotion*

Hengan emphasizes on building a win-win situation between employees and the enterprise, constantly innovates the employment mechanism and working environment, modifies the single position management system in which changes can only be realised through job promotion, and designs career development channels for professionals to meet the development needs of employees from different systems:

- Career development channel of managers: Through effective management of the team, an employee can continue to expand his/her scope of management, and become a leader of the department and the enterprise;
- Career development channel of professional technicians: With continuous improvement of their professional knowledge and skills, employees can become technical experts.

Hengan management school adopts the professional technical title evaluation system and, by publicising the career development channels and title evaluation knowledge within the Group, encourages all employees to sign up for the evaluation. For the employees who have obtained a technical certificate, the Group holds an appointment ceremony for and appoints the employees formally, and offers them corresponding benefits.

Adhering to the principle of “fairness, justice and openness”, Hengan promotes the employee development by encouraging post competition within the Group to achieve a win-win situation for both employees and the Group, and push the Group to develop towards a common vision.



5) *Employee rights and interests and complaints*

Employment of child labour and forced labour are prohibited by Hengan. In accordance with the Hengan Group Personnel Management Policy 《恒安集團人事管理規定》, in the process of recruitment and talent selection, those under 16 years old will not be hired; in addition, it has been configured that no one under 16 can be put into the human resources information system.

In order to protect the legitimate rights and interests of employees and address problems in a timely manner, Hengan built the Sunshine Community to ensure smooth communication between employees and the Group’s management and encourages employees to propose suggestions on management and development of the Group. Relevant department heads will respond, put forward solution, and put it into practice so that problems can be dealt with timely or improvement be made, therefore enhancing employees' enthusiasm and satisfaction and obtaining better corporate cohesion.



Internal post competition

6) *Anti-discrimination*

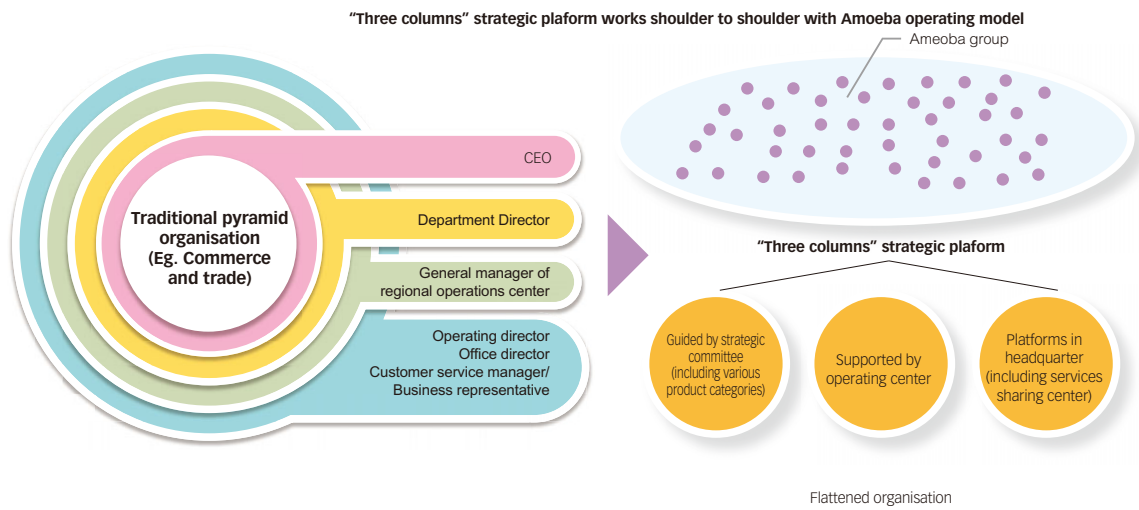
Upholding the principle of openness and fairness, Hengan opposes all kinds of discrimination. During the recruitment process, the Group only focuses on the assessment of the individual capacity of the candidates with no regards of their race, colour, gender, age and religious belief. All employees and candidates enjoy equal opportunities.



7) *Benefit sharing*

Hengan lays importance on the theme of “Create values, bear responsibility together, and share benefits” in operation and transformation, encourages internal entrepreneurship, establishes and perfects the structure of “Three columns” platform to make the strategic platform go hand in hand with the business model of Amoeba team. Relying on innovation empowerment, the Group continues to fully empower employees under the rules and targets of the platform, and to stimulate the enthusiasm and vitality of the platform-based small team. In this way, the Company helps employees to improve their innovation ability and realise self-worth while promoting the rapid performance growth of the Group.

Hengan Group’s management transformation



8) *Employee activities*

Hengan shows understanding and concern to its employees and organized a variety of employee activities during work and festivals to balance the work and life of employees, and let employees feel the warmth of home.



27 January, “No waiting for happiness” fellowship activity of Hengan



21 July, “Run for health” at Anping bridge park



24 August, skipping rope game at Hengan (China) Paper Products branch



September, Mid-autumn moon cake exhibition in Wuli branch

2. Training and development

Hengan is committed to cultivating itself as a “learning enterprise” and creating an atmosphere of learning and enterprising, so that the overall quality of employees can be continuously improved. Based on the Hengan Group Training Management Policy 《恒安集團培訓管理規定》, the Group formed a unique talent cultivation system, which is implemented throughout the Group with the assistance of various departments and the use of external excellent resources, internal instructors, and various training methods. At the same time, the Group built Hengan Management College to further perfect its training system.

In 2018, Hengan improved employees’ technical skills and management skills and tried to meet the needs of employees at all levels through various internal trainings, third-party open courses, post-ability model and online platform of management learning and training.

In 2018, the Group conducted about 273,000 hours of training courses, with an average of 11 hours per employee. The percentage of employees trained was 100%.



Annual meeting training: Group executives' strategic project training



Hengan lecture: Themed lectures for common staff

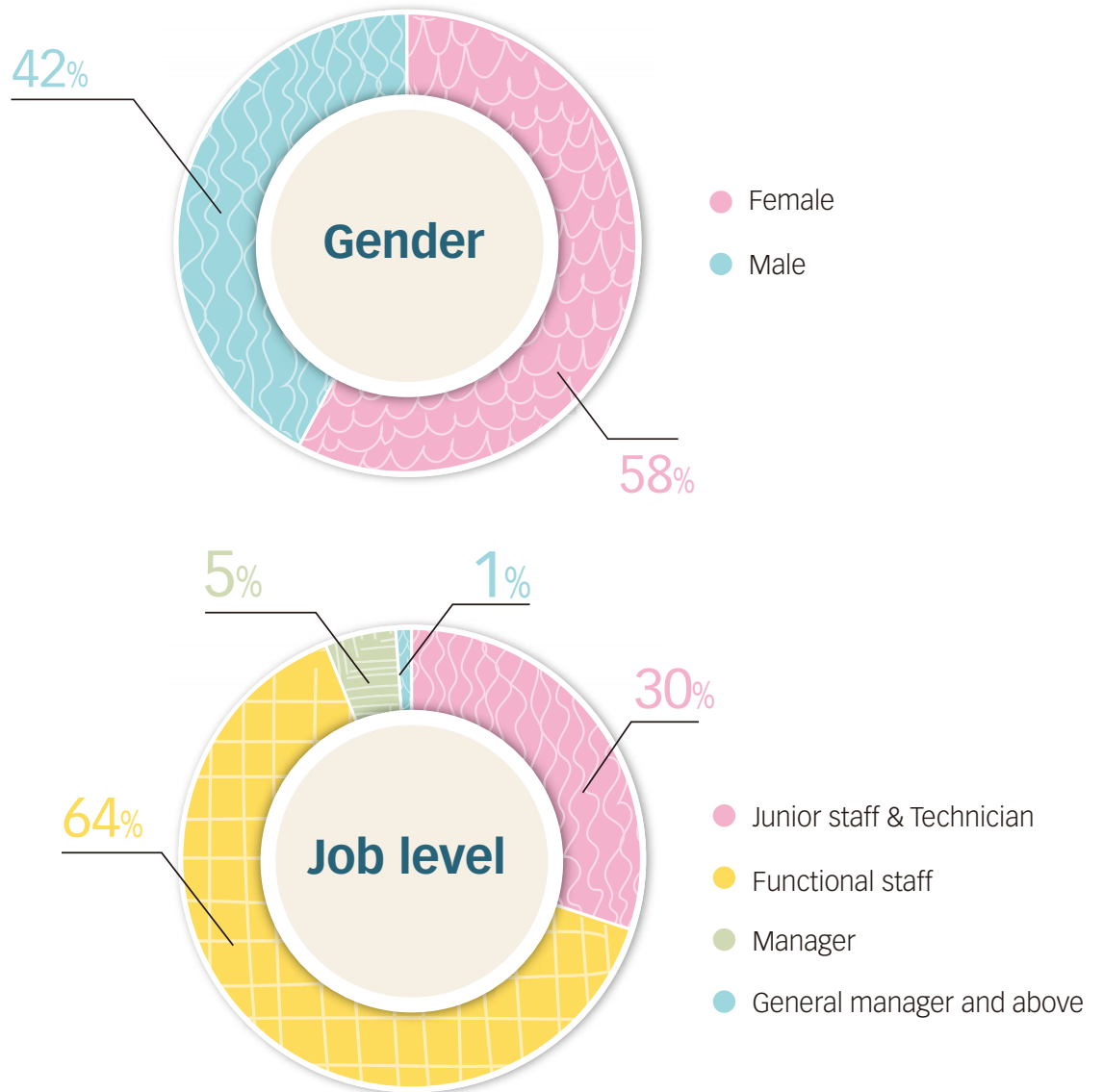


Pre-embarkation training: training for new employees from social recruitment



Hengan pays attention to the foster of professional managers and successors. By constructing a professional manager training system, Hengan promotes the awareness of managers to actively cultivate subordinates from top to bottom.

As of the end of 2018, the proportion of trained employees by gender and job level are as follows:



G. BUSINESS INTEGRITY

In strict compliance with the Company Law of the People's Republic of China 《中華人民共和國公司法》, the Tendering and Bidding Law of the People's Republic of China 《中華人民共和國招標投標法》, 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》, the Interim Provisions on Banning Commercial Bribery 《關於禁止商業賄賂行為的暫行規定》 and other applicable laws and regulations, Hengan has adhered faithfully to its core value of business integrity. Corruption and bribery are strictly prohibited in Hengan as stated in the Hengan Group Personnel Management Policy 《恒安集團人事管理規定》 that employees of the Group are prohibited from bribery, embezzlement or misappropriation by taking advantage of their authorities or duties and from exploiting their powers of office to accept bribes or kickbacks. The Group, through various measures such as training and promotion, strengthens the communication with its staff in respect of internal control, anti-corruption and anti-commercial bribery, so as to enhance their awareness in this regard.

All employees of the Group are responsible for the supervision and reporting on other employees' breach on national laws and regulations as well as rules and regulations of the Group. Where any illegal or undisciplined conduct is found, employees may report to human source department anonymously. This department will verify the reported issues and, upon confirmation, shall report to the relevant head of senior management to sign the comments on addressing the issue in accordance with applicable regulations. Informers and reporting materials are kept strictly confidential.

Code of conduct for staff during the tendering and bidding process, requirements of economic incentives during construction works, and code of conduct for procurement staff have also been stipulated by Hengan in such documents as the Management Policy of Hengan Group for Tendering and Bidding (《恒安集團招投標管理制度》), the Management Provisions of Hengan Group on Engineering Construction (《恒安集團工程建設管理規定》) and the Procurement Policy of Hengan Group (《恒安集團採購制度》), for the prevention of bribery and corruption. Based on the management philosophy of office integrity and collective learning and growth, Hengan has adopted various forms of measures, including rotation programs, avoidance of relative recruiting, departure audit, procurement pricing meetings, quality analysis meetings, analysis meetings for competitive products, as well as the President's mailbox, the Auditing mailbox, 800 service hotline and business review meetings, to safeguard and promote the level of business integrity of the Group.



H. CHARITY

Hengan embraces a heart of serving the country by industrialisation, cares for students, and is concerned about poverty-stricken areas. It has made active efforts to improve the economic environment and promote social harmony and civilization.

On 11 October 2018, the CEO of the Group, Mr. Hui Lin Chit, won the “Entrepreneur of the Year in Excellence and Sustainable Development of Enterprise Asia Awards”. This is the first time that the jury has awarded this supreme award to a Chinese entrepreneur, fully affirming the social responsibility of Mr. Hui Lin Chit and Hengan Group and its exemplary role in sustainable development.



The Group formulated the Management Policy for Hengan Group’s Charity and Voluntary Activities 《恒安集團慈善與公益活動管理制度》, requiring employees of the Group to keep in mind the social responsibility and mission of a corporate, to serve the society with a positive attitude and to feedback the society with enthusiasm. The Group regularly evaluates the relationship between the Group’s business activities and the community’s interests. In the course of self-development, the Group promoted social development and progress by donations, cultural and sports undertakings support, volunteer activities, caring for the elderly and children, etc., so as to fulfil the social responsibilities as a corporate citizen. By the end of 2018, Hengan Group and its major shareholders’ donation had exceeded RMB 1.3 billion for social welfare and charity causes, which won wide praise.

Supporting recreation and sports

Hengan has been lavish in sponsoring various cultural activities for the purpose of delivering positive vibe through cultural and sports activities, more than merely marketing and promotion.

During 21 April and 23 June 2018, Hengan Space 7 title-sponsored Produce 101 《創造101》, targeted particular audience of Space 7 through the S+ online variety show, and promoted the positive brand among them.

Caring for disadvantaged groups

Hengan regularly organises warm services and visits disadvantaged groups, to show concern and good wishes.

During the Spring Festival of 2018, volunteers of Hengan from support docking station of Quanzhou City sent heart-warming services to good Samaritans whose families are in need.

On 17 October 2018, the Brand and Public Relations Department of the Volunteers Association of Hengan led volunteers to the old people's home in Xiaoxia Village, Dongshi Town, Jinjiang City to send the elders warmth and good wishes for the Double Ninth Festival.

Encouraging innovation

Hengan continues to exert its strength in exploring and cultivating innovative talents to invigorate the society and create more national brands with responsibility.

Hengan collaborated with the Central School and the Central Network Film and Television Centre of the Communist Youth League on the National College Student Innovation Practice Competition "Hengan Partner Program" 2018 in universities throughout China. After collection, screening and roadshow of entrepreneurial projects, the Group chose good projects that can be combined with the platform of Hengan.

Environmental protection promotion

In 2018, Hengan signed a contract with Shaanxi Qinling Giant Panda Base. The Group adopted and named two giant pandas, "Hengheng" and "An'an", in the form of public benefit activity, and released the news to public in combine with the Group's (as well as paper product company) brand, Zhu π, conveying the concept of green environmental protection and sustainable development to society.





APPENDIX: KPI INDEX TABLE

Aspect	General Disclosure	Chapter	Page
A Environment			
A1 Emissions			
A1.1	The types of emissions and respective emissions data.	E. Green development Environmental protection	24
A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	E. Green development Tackling climate change	28
A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	E. Green development Environmental protection	26
A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	E. Green development Environmental protection	26
A1.5	Description of measures to mitigate emissions and results achieved.	E. Green development Environmental protection	24
A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	E. Green development Environmental protection	25
A2 Use of Resources			
A2.1	Direct and / or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	E. Green development Resource conservation	30
A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	E. Green development Resource conservation	31
A2.3	Description of energy use efficiency initiatives and results achieved.	E. Green development Resource conservation	29
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	E. Green development Resource conservation	30
A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	E. Green development Resource conservation	32
A3 The Environment and Natural Resources			
A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	C. Product responsibility Procurement responsibility	16
B Social			
B1 Employees			
B1.1	Total workforce by gender, employment type, age group and geographical region.	F. Employee care Employee	34
B1.2	Employee turnover rate by gender, age group and geographical region.	N/A	N/A
B2 Health and Safety			
B2.1	Number and rate of work-related fatalities.	D. Health and safety Occupational health	22

Aspect	General Disclosure	Chapter	Page
B2.2	Lost days due to work injury.	N/A	N/A
B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	D. Health and safety Work safety	20
B3	Development and Training		
B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	F. Employee care Training and development	39
B3.2	The average training hours completed per employee by gender and employee category.	F. Employee care Training and development	38
B4	Labour Standards		
B4.1	Description of measures to review employment practices to avoid child and forced labor.	F. Employee care Employee	36
B4.2	Description of steps taken to eliminate such practices when discovered.	F. Employee care Employee	36
B5	Supply Chain Management		
B5.1	Number of suppliers by geographical region.	NA	NA
B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	C. Product responsibility Procurement responsibility	15
B6	Product Responsibility		
B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	C. Product responsibility Customer services	19
B6.2	Number of products and service related complaints received and how they are dealt with.	C. Product responsibility Customer services	18
B6.3	Description of practices relating to observing and protecting intellectual property rights.	C. Product responsibility Customer services	19
B6.4	Description of quality assurance process and recall procedures.	C. Product responsibility Quality assurance	19
B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	C. Product responsibility Customer services	19
B7	Anti-corruption		
B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	G. Integrity business	40
B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	G. Integrity business	40
B8	Community Investment		
B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	H. Charity	41
B8.2	Resources contributed (e.g. money or time) to the focus area.	H. Charity	41



10. READERS FEEDBACK FORM

Thank you for reading the “2018 ESG Report of Hengan International Group Company Limited”. In order to provide more valuable information to the Group’s stakeholders and improve its ability and level of fulfilling social responsibilities, we would welcome any feedback or suggestions you might have about this report.

You can send this form to any of the following:

E-mail address: martinli@hengan.com.hk

Mailing address: Unit 2101D, 21st Floor, Admiralty Centre, Tower 1, 18 Harcourt Road, Hong Kong

1. How would you rate your opinion of the 2018 ESG Report of Hengan International Group Company Limited?

Very High High Neutral Low Very Low

2. How would you rate your opinion of our social and environmental responsibilities?

Social Responsibility Very High High Neutral Low Very Low

Environmental Responsibility Very High High Neutral Low Very Low

3. Please rate the effectiveness of this Report in reflecting our social and environmental impact we have brought about through its social responsibility practices?

Excellent Good Fair Poor Terrible

4. How would you rate your opinion of the clarity, accuracy and completeness of the information, data and indicators this Report has disclosed?

Clarity Very High High Neutral Low Very Low

Accuracy Very High High Neutral Low Very Low

Completeness Very High High Neutral Low Very Low

5. Do you find this Report in easy-to-read contents and formatting?

Yes Neutral No

6. Feel free to share any comments or suggestions you may have on us and this Report:

