



CHINA SHANSHUI CEMENT GROUP LIMITED

中國山水水泥集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 691)

**ENVIRONMENTAL, SOCIAL AND
GOVERNANCE REPORT 2016**



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I. SOCIAL RESPONSIBILITY STRATEGY OF THE GROUP

China Shanshui Cement Group Limited (“the Company”) and its subsidiaries (together “the Group”) are committed to sustainable development and fulfilling its environmental and social responsibilities. The Group's management team continues to monitor the implementation of relevant policies, and to optimise its effort on energy conservation and emission reduction and social responsibility.

II. REPORTING PERIOD AND SCOPE OF THE REPORT

The Group is prepared the first Environmental, Social and Governance Report (“this report”) in 2016. This report is prepared in accordance with the “Environmental, Social and Governance Reporting Guide” under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), covering the Group and its subsidiaries. For corporate governance practices, please refer to the Corporate Governance Report on page 65 to 79 of 2016 Annual Report. Unless otherwise stated, the reporting period for this report is from 1 January 2016 to 31 December 2016.

III. STAKEHOLDER ENGAGEMENT

Stakeholders of the Group in respect of the environment, society and governance include internal stakeholders and external stakeholders, mainly its employees, suppliers, customers, investors, the government as well as the community and the general public. The materiality assessment was mainly conducted by the management. The Group will increase the engagement of other stakeholders and review and update the materiality assessment, enabling report to fully reflect the latest progress in promoting sustainable development by the Group.

IV. ENVIRONMENTAL SUSTAINABILITY

A.1. Emissions

The Group strictly abides the relevant laws and regulations in the People's Republic of China (“PRC”) such as the Environmental Protection Law, Atmospheric Pollution Prevention and Control Law, Water Pollution Prevention and Control Law, Prevention and Control of Environmental Pollution by Solid Wastes Law, Prevention and Control of Pollution from Environmental Noise Law and Standard for Emission of Air Pollutants in Cement Industry.

The major emissions of the cement industry are exhaust gases and greenhouse gases (“GHGs”), including nitrogen oxides, sulfur dioxide, particulates, ammonia, fluoride, mercury and its compounds and other air pollutants. Electricity consumption could also indirectly increase the GHGs emission.

In addition to the above-mentioned national and industry-related laws and regulations, the Group also strictly abides by the local laws and regulations for the cement industry, including Emission Standard of Air Pollutants in Building Materials Industry in Shandong Province, Comprehensive Emission Standard for Regional Air Pollutants in Shandong Province, Standard for Emission of Air Pollutants in Cement Industry. Cement clinker plants under the Group are all certificated with the Pollutant Discharge Certificate and regularly appoint independent certificated environmental monitoring agencies to conduct quarterly or annual emissions monitoring. The monitoring results are in line with national standards.

To reduce air pollutants emissions, cement clinker plants under the Group have adopted the selective non-catalyst reduction (SNCR), which converting nitrogen oxides into nitrogen gas and water, and thus reducing the nitrogen oxides emissions effectively. Besides, it purchases coals with less sulfur content to reduce the sulfur dioxide generation. It also installs a continuous emission monitoring system (CEMS) at the outlet of the kiln to monitor the data in real time.

Cement clinker plants under the Group all have sewage treatment system, achieving to recycle cooling water and treated wastewater. The treated water quality is in compliance to the urban greening and road cleaning water quality standards of GB/T18920-2002 for Urban Wastewater Recycling Urban Miscellaneous Water Quality. The recycled wastewater is used for the road spraying and green area irrigation on the operation sites. Since wastewater is not discharged into the municipal sewage network, the plants realise zero emissions of wastewater.

A.2. Use of Resources

The Group is committed to the long-term sustainable development of its environment and community, and actively responds to the call of energy conservation and emission reduction. It strictly abides by Law of the PRC on Conserving Energy and Urban Water Conservation Regulations.

For the electricity consumption, the Group has adopted a number of electricity-saving measures in 2016, including consuming electricity based on consumption intensity, promoting to use frequency conversion equipment, replacing necessary production equipment with frequency transformation ones, presenting posters in the office to promote electricity saving and formulating relevant assessment system to punish those who waste electricity.

For the water consumption, the Group has adopted a number of water-saving measures in 2016, including recycling the cooling water from the production line through the cooling pool, treating domestic wastewater by the sewage treatment stations and recycled them for the green area irrigation and road dust removal, and installing separate water meters in each workshop section and conduct assessment of water consumption.

To improve the utilisation efficiency of fuels and reduce their consumption, the Group has taken measures including using raw coal with high calorific value, low carbon content and low moisture to improve the clinker production, optimizing the operation system to ensure full combustion of coal, while improving the secondary wind temperature to increase the efficiency of coal combustion, and conducting regular maintenance of the transport vehicles' engines.

A.3. The Environment and Natural Resources

The Group strictly abides by the relevant laws and regulations in the plants' operation, and adheres to recycling energy, conserving natural resources, and improving the use efficiency of resources. Its daily operations have no seriously adverse effect on its surroundings. The Group complies with the national policy of comprehensive utilisation of resources and is dedicated to reduce its impact on the environment and natural resources.

The Group values the green education to its employees. It sets up specially an environmental management team which carries out environmental protection education regularly and encourages employees to learn government environmental policy. The Group also attaches great importance to the greening work of the plants to ensure the environmental sustainability. The Group continuously upholds the safe, harmony and green development concept, and acts as a resource-saving and environment-friendly enterprise.

V. SOCIAL SUSTAINABILITY

EMPLOYMENT AND LABOUR PRACTICES

B.1. Employment

The human resources policies of the Group strictly adhere to the relevant employment laws in Hong Kong and PRC, including Labour Law, Employment Contract Law, Social Insurance Law and the relevant laws and regulations in the PRC; and Hong Kong's Employment Ordinance and the relevant laws, to ensure that employees are provided with reasonable compensation packages and social security benefits. The Human Resources Department of the Group has formulated the "Staff Attendance Management Measures" in accordance with the latest laws and regulations and regularly reviews and updates the relevant human resources policies.

The Group has developed "Regulations on Recruitment Management" based on the principle of openness, fairness, impartial, equal opportunity and seeking for most suitable candidates. Recruitment is through internal channel (by department referral) and external channels (by media, job fair, campus event and agent). The Group offers competitive and fair remuneration and benefits by evaluating personal performance, education level, working experiences, morality and comprehensive assessment.

The Group regularly reviews employees' compensation package according to the overall market environment, profitability of the Group and staff income level. This ensures that employees are recognised by the Group appropriately with regard to their working efforts. The Group rewards or penalises the employees according to the business conditions at the end of the year. Appropriate incentives and competitive remuneration packages will help the Group to retain talent.

As an equal opportunity employer, the Group is committed to create a fair, respectful and diverse working environment. The Group respects all employees by promoting anti-discrimination and equal opportunity irrespective of their race, sex, age, disability, family status, marital status, sexual orientation, religion, ethnic origins or any other non-job related factors. The Group enforces zero tolerance to any workplace discrimination, harassment or vilification.

B.2. Health and Safety

The Group is dedicated to provide a safe and healthy working environment and strengthen the safety awareness of employee continuously. The safety and health policies of the Group strictly comply with relevant laws and regulations in the PRC, including Work Safety Law, Prevention and Control of Occupational Diseases and Special Equipment Safety Law. The Group is committed to implement the occupational safety and health policies at the same time, such as Regulations on Labour Hearing Protection in Industrial Enterprises, Regulations on the Occupational Health Check Management, GB/T 16911-2008 for Code of dust control for cement producing, GB15054-1994 for Lifting appliances—Dangerous positions and signs, GB15577-2007 for Safety regulations for dust explosion prevention and protection. In order to eliminate any hidden dangers, the Group prompts the responsible personnel at all levels to take reasonable due care on performing the safety management in the production line and workplaces.

The Group strives to provide a healthy and safe working environment to employees. For example, installing dust collectors in dusty places to reduce dust-laden air; reducing noise in the production area by install noise reduction devices at the wind vent and noise barriers around the cement mill; installing radiation shield or protector to prevent the heat radiation; and maintaining electrical equipment and fire control equipment properly.

The Group aims to maintain a clean, smoke-free, healthy and safe working environment by formulated various internal manuals such as “Standard on safety sign management and its usage”, “Implementation rules of safety warning signs for limestone mines”, “Safety management systems”, “Occupational Health Management System” and “Personal protective equipment and management practices”.

The Group continuously promotes occupational safety and health risk management. The management of the production site is responsible for implementation and supervision on healthy and safe measures. Measures include providing suitable working uniform and safety protection equipment for on-site workers such as goggles, protective clothing and masks according to their working nature and actual operation; prohibition on smoking and drinking liquor in workplace; offering body checks for employees regularly; building up safety warning notices and signs at sites; organising health and safety training every year; conducting an emergency response drill and two emergency rescue exercises annually; performing weekly and monthly safety checks for each company and the Group inspects safety checks on subsidiaries quarterly; and holding safety work conference regularly.

B.3. Development and Training

The Group's training policies are divided into external trainings, group-level trainings and subsidiary trainings. External trainings aim to sponsor eligible employees to participate external technical competitions and obtain corresponding certificate. Group-level trainings mainly help to improve technical skills for the management of subsidiaries. Subsidiaries of the Group can arrange their trainings including external trainings, group trainings and the trainings for their new and existing employees.

B.4. Labour Standards

The Group strictly abides by the relevant employment laws in the PRC, including Labour Law, Employment Contract Law, Provisions on Prohibition of Using Child Labour and Protection of Minors Law, prohibiting its subsidiaries in hiring child labour, underaged and forced labour. According to the "Regulations on Recruitment Management", prior the confirmation of employment, applicants shall ensure that the information provided is true and correct. Human resources staff of the Group specifies that applicants shall provide a valid identity documents to guarantee that the applicants are lawfully employable and comply with the relevant laws and regulations on prohibiting child labour and forced labour. During the reporting period, the Group did not have any employment of child and forced labour.

OPERATING PRACTICES

B.5. Supply Chain Management

The Group emphasises the importance to the quality of suppliers' raw materials. The subsidiaries of the Group require the suppliers to provide relevant qualification certificates continuously. The principal raw materials used in the production of cement clinker and cement products are limestone, sandstone, coal, gypsum, fly ash, slag, carbide slag, slag powder, shale, iron tailings and steel slag. The main suppliers include the development and sale of mineral products' companies, manufacturers of spare parts and consumable materials and agents in China.

Procurement Management Department performs the market research in initial stage of tendering. The quality control room conducts the on-site investigation for sample testing and concludes the suitable raw materials for production based on the testing result and material acceptance standard of subsidiaries such as "Material quality acceptance criteria and conditions".

The Group selects suppliers in accordance with the Group's tender procedures, rules and regulations. The Group considers whether the suppliers are legally manufactured/ operated enterprise approved by the relevant state departments and comply with national and local laws and regulations; whether the supplied goods meet the quality and price standard and pass the relevant tests; whether the suppliers obtain relevant production certificates; whether the suppliers have the adequate technical capacity, delivery capacity, financial position and good social reputation; and whether the suppliers obtain the relevant environmental certificates. Selection factors will be adjusted from time to time according to market conditions and production needs.

If the products are not meet Group's requirements after formally introduced, the Group will rectify the problems in according to internal manuals such as "Nonconformity, corrective and preventive control procedures", "Monitoring and measurement control procedures for products" and "Technical requirements for procurement of materials". If there is a disagreement on the quality of materials, materials will be sent to the national accreditation for cement quality supervision and inspection body in provincial level or above for arbitration.

B.6. Product Responsibility

The Group is committed to maintain the products in line with national and industry recognised technical, procedural and safety standards which mainly includes:

- GB175-2007 for common portland cement;
- GB/T21372-2008 for portland cement clinker;
- GB6566-2010 for limits of radionuclides in building materials;
- GB31893-2015 for limits and determination of the water-soluble chromium (VI) content for cement;
- Regulations of quality management for cement enterprise;
- Regulations of pressure vessel safety technical supervision;
- Safety requirements for lifting machinery; and
- Safety regulations for dust explosion prevention and protection.

The plants under the Group are certified the requirements in ISO9001 for quality management system, ISO14001 for environmental management system, OHSAS18001 for occupational, health and safety management and GB/T 23331 for energy management system. Meanwhile, according to the actual situation of the Group and the relevant laws and regulations, the Group strives to improve its quality, environment, occupational health and safety and energy management systems, achieve environmental protection, control occupational health risks effectively and ensure products' safety which those areas are compliance with laws and regulations continuously.

B.7. Anti-corruption

The Group strictly adheres to the local laws and regulations relating to anti-corruption and bribery such as Anti-money Laundering Law of the PRC and Hong Kong's Prevention of Bribery Ordinance. The Group pays attention on honestly and trustworthy of employees and their behaviours on moral grounds. The Group has formulated comprehensive internal operating manuals such as "China Shanshui Cement Group Limited's Regulations on anti-corrupt and self-disciplined for leading party members", "Code of conduct on procurement personnel" and "Regulations on deposit management from material procurement" to emphasis and improve anti-corruption and bribery policies within the Group. All employees are expected to discharge their duties with integrity and self-disciplined, and they are required to abstain from engaging bribery, extortion, fraud and money laundering activities. Discipline inspection committee, the supervisory and auditing departments of the Group and the party organisations at the same level are responsible for supervising and implementing those provisions. The Group also arranges education and organises lectures regularly to deepen professional ethics and code of conduct in promoting corporate integrity.

COMMUNITY

B.8. Community Investment

The Group attaches great importance to the relation with the community. Enterprises and communities are a whole, and enterprise development supports financially community development. At the same time, enterprise development cannot be separated from community's support and help.

The Group is strongly committed to its social responsibility to the community, and actively donated cement for the construction of roads and squares in the surrounding villages and support financially its employees who went through sickness or a hard time. The Group received honours in fulfilling its social responsibility in 2016 which includes:

- The Shandong Cement Factory was awarded the Model Enterprise for the Employment of Persons with Disabilities and Outstanding Low-carbon Enterprise in Shandong Province;
- Shanshui Heju won RMB 2 million as energy conservation subsidy and RMB 500,000 as air pollution prevention and control subsidy, and it was awarded the Outstanding Enterprise for Supporting Local development and Outstanding Enterprise for Project Construction;
- Shuozhou New Era won RMB 1.16 million for doing good in controlling air pollution, and won RMB 200,000 for updating from small enterprise to qualified one in local county; and
- The Roads belong to Zaozhuang Shanshui was honoured as the Landscape Avenue by the local government.

VI. REPORT DISCLOSURE INDEX

Aspects	ESG Indicators	Description	Page
A. Environmental			
A1: Emissions	General Disclosure	A1: Emissions General Disclosure A2: Use of Resources General Disclosure A3: The Environment and Natural Resources General Disclosure	3
A2: Use of Resources	General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	4
A3: The Environment and Natural Resources	General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	5
B. Social			
Employment and Labour Practices			
B1: Employment	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	5
B2: Health and Safety	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	6
B3: Development and Training	General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	7
B4: Labour Standards	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	7

Operating Practices			
B5: Supply Chain Management	General Disclosure	Policies on managing environmental and social risks of the supply chain.	7
B6: Product Responsibility	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	8
B7: Anti-corruption	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	8
Community			
B8: Community Investment	General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	9