

Environmental, Social and Governance Report

1. About this report



The Company published the first Environmental, Social and Governance Report (“ESG Report”) in 2016. The purpose of this ESG Report is to convey the Group’s management principles and sustainable development strategies to both internal and external stakeholders. The Group is committed to providing customers with DS, HSS, cutting tools and titanium materials manufactured in processes with consideration to the environmental and social well-being as a whole. The Group is committed to reduce environmental footprint, enhancing the safety of the work environment while providing quality products.

The Group has invited Allied Environmental Consultants Limited to carry out an materiality assessment, various internal stakeholder communications and engagements, and investigation of matters that may have a significant impact on the Group’s sustainable development, the relevant results of which has been stated in this ESG Report.

The Company’s senior management team has approved this ESG Report and confirmed that the environmental, social and governance risk management and internal control systems of the Group are effective. The Group is grateful to all those who have assisted in the preparation of this ESG Report and contributed to our positive environmental, social and governance performance.

1.1 Guidelines

This ESG Report contains information in accordance with reporting principles of Materiality, Quantitative, Balance and Consistency, which is defined in Appendix 27 “*Environmental, Social and Governance Reporting Guide*” of the Listing Rules.

The Company’s corporate governance report is prepared in accordance with all applicable provisions as set out in Appendix 14 of the Listing Rules, which has been reported in “Corporate Governance Report” of the annual report.



1.2 Scope

The ESG Report contains the environmental and social operational data for the fiscal year 2016 (1 January 2016 to 31 December 2016).

Unless otherwise specified, this ESG Report covers the main operations of the Group, including the data and activities of the production base in Jiangsu, China.

For subsidiaries and affiliates of the Group located in mainland China, Hong Kong, Taiwan and overseas which are not directly engaged in production and therefore have little impact on the overall environmental and social aspects of the Group, they are not included in the reporting area for 2016. If the Company's business scope changes in the future, resulting in an increase in the impact and importance on the Group's environmental and social aspects, it would be incorporated into the scope of future reports.

1.3 The Group's Vision on Sustainability

The Group is committed in the pursuit of excellence by providing top of the line products in the steel industry. While the "Tiangong" brand has been established for well over 35 years, the Group understands that long-term sustainable growth goes beyond running a profitable business and requires social and environmental contributions.

In addition to the reporting of business and economic activities, the Group has begun to structure the reporting of environmental and social performance in order to better communicate to stakeholders the Group's sustainable development.

The following actions were undertaken in the reporting year of 2016:

- Compiling the Group's first Environment, Social and Governance Report (ESG Report)
- Establishing a data collection mechanism for monitoring both environmental and social aspects
- Designating responsible personnel from different departments for the preparation of the ESG Report
- Establishing goals for the Group's sustainable development for the year of 2017

The Group endeavours to communicate with its internal and external stakeholders to develop the Group's sustainability. Effective communication with stakeholders will further enhance a safe working environment for the Group's employees, promote an environmentally-friendly production line and produce quality products for customers.

1.4 Contact

If you have any comments or suggestions regarding this ESG Report, please contact the Investor Relations Department at the address below:

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2. Our Staff

Talent selection (B1,B3,B4)

The Company's staff management objectives are: nurturing rich and powerful enterprise staff. It is believed that excellent talented staff will contribute to a flourishing enterprise and the achievements of which can be enjoyed by all employees. Therefore, the Company has developed an employment and staff management system to effectively promote the development of the Group as a whole.

It is our commitments to:

- comply with all applicable laws, regulations and other requirements, including the "Labour Law", "Employment Contract Law" and "Trade Union Law";
- prohibit the use of child labor and forced labor, not accept any supplier who uses child labor, prisoners or forced labor;
- equally treat all the employees and stand against discrimination;
- provide all employees with reasonable working hours and holidays;
- when it comes to employment, remuneration, training opportunities, promotion, dismissal or retirement, any discrimination based on race, ethnic or social origin, social class, descent, religion, physical disability, gender, sexual orientation, family responsibilities, marital status, union membership, political opinion, age or other, will not be allowed;
- respect the basic human rights of employees and prohibit any form of personality insult;
- provide safe and hygienic working and living conditions to ensure the health and safety of employees;
- provide reasonable and improving wages, benefits and working conditions.

Recruitment management system

The Group adheres to the principal of open recruitment, internal promotion before external recruitment, equal competition, and matching people's talent to the post. In accordance with the careful recruitment system and procedures, our Human Resources Department will first examine the applicants' qualifications and experience to identify potential staff meeting the Group's need, and interviews will then be arranged to select the appropriate personnel. The recruitment process is consistently just, fair, open and equal.

During this recruitment process, the Human Resources Department will be able to verify the applicant's background with the support of their identity documents, academic and qualification certificates, so as to ensure that the candidates meet the age requirements of the Group and to ascertain the accuracy of their identity before considering the employment. There has been no non-compliance in relation to the employment of child labor or forced labor by the Group in this year.



Prevention of forced labor

The Group strictly prohibits forced labour. If any employee suspects a case of forced labour, he or she must contact the Security Department, which will carry out investigation and verification.

Promotion

The promotion management system of the Group aims to standardize the selection process and actively excavate and cultivate the excellent management personnel of the Company, to provide a platform for the promotion and competition of the employees, and to form a positive staff atmosphere and reduce the human factors in the process of personnel management, so that talents selection for each post would be based on a just, fair, and open process, which effectively promotes the Company's management. The Group has clear guidelines on the promotion management system, which set out the conditions and procedures for promotion, so that all the employees have a fair promotion opportunity.

Training



Tiangong Mentoring Scheme- signing of Master/Apprentice agreement

Employee training at the Group operates with four goals in mind: to accelerate employees' career progression; fully utilize our company's internal human resources; cultivate the Company's own talents; increase human capital to strengthen our company's momentum. With respect to these goals, a master-apprentice program known as the "Pass the Baton" has been incorporated in training. Under the "Pass the Baton" program, new employees are paired with experienced employees through a one-on-one apprenticeship agreement in which the experienced employees are obligated to help transition the new employees. The mentoring program has been introduced and updated in

the Company's newsletter, forming a strong atmosphere of bonding among staffs.

This year, the Group's second echelon talent training program was launched, which has benefitted 39 trainees. The program offers various classic courses such as "the development of team leadership", "Internet-based business model innovation", "leadership and managers EQ training", "enterprise information in the business application" and "shaping corporate culture and core values". The training of second echelon of personnel will be an important source of supply of capable staff for managing and implementing the Group's projects. According to the plan, the Company will annually provide training in different phases to staff with good performance and high loyalty, in order to continue to build an outstanding team and provide multi-level echelon talents for the future development of the Company.



Tiangong training



Payment and benefits

The Company has established a system to provide reasonable wages and benefits and working conditions to its staff to improve the Company's core competitiveness. The Group aims to establish a remuneration system suitable for the development of the Company, standardize the management of remuneration and benefits, and build a value distribution mechanism and internal incentive mechanism so as to attract and retain the talents and thus reach the principle of sustainable development.

The Group firmly believes that our competitive remuneration and benefits program will invigorate human resources, contribute to the increase of our company's core competitiveness and for talents retention.

The Group will organize an awards ceremony for employees each year, to acknowledge their contribution.

There will be a staff show at the same time to improve the team's cohesion.



2016 annual awards ceremony of Tiangong

Employee resignation or dismissal management

The Group manages the procedures for the resignation or dismissal of employees, ensures a relatively stable workforce, maintain the order of normal personnel flow, and handle staff movements in a confidential manner and keep the work coherent and smooth.

Corruption prevention and internal audit system (B7)

During the reporting period, the Company implemented a strict anti-corruption policy to prohibit all acts related to bribery, blackmail, fraud and money laundering, and convey the message to all employees and business partners so as to adhere to the relevant codes.

The Group believes that employee integrity is one of the core values of the Group's operations. The Group pays attention to the individual behavior and the personal quality, prohibits bribery, extortion, and fraud etc. In order to maintain a normal working order, the Group motivates staff to fulfill their duties fairly, to further implement the Company's rules and regulations, and ensure that the Group complies with the relevant laws and regulations.

During the reporting period, the Company did not experience any corruption incident.



Employee's health and safety (B2)

As a special steel manufacturer, the production process has some potential safety risks. The Group values the safety of employees, develops safety regulations and provides labor protection outfits (such as safety shoes, safety clothes, safety helmets, protective glasses, protective shoes, etc.). There are different electrical appliances and machinery on the production site, which are restricted to operation by qualified personnel. All qualified personnel should also be trained on a regular basis to enhance their risk awareness.

The Group arranges the Human Resources Department to provide medical examinations for the frontline employees twice a year to ensure employees health.



3. Our products

The Company's production principles are: production is subject to safety, production is subject to environmental protection, and production is subject to quality. Strict quality testings are implemented from the supply chain to the export of products, and relevant environmental impacts throughout the processes are considered.

Supply Chain Management (B5)

The Company believes that a complete supply chain is very important for the Group's sustainable operations. So supply chain management systems and management regulations have been set up to assess the quality of selected suppliers while balancing environmental and social risks. In the case of equipment or raw materials, a regulatory system has been implemented to regularly review the number and performance of suppliers to ensure compliance with material specifications and to maintain smooth day-to-day operations. The Group will also consider the supply site, and try to use local suppliers to reduce the emissions of pollutants arising from the transportation, which also contributes to environmental protection at the same time.



The Group is strictly against any form of corruption or bribery with a purpose to influence the relevant decision-making of the Group. The Group believes that the preservation of confidentiality is the basis for the establishment of mutual trust between the Group and its business partners, and the effective protection of the interests of the Company. Internally, the Group also requires that the procurement staff shall not have any economic interests with the supplier, be honest and maintain confidentiality of business information so as to uphold the interests of the Company under any circumstances.

The Group will regularly arrange on-site visits to its business partners' establishments to assess their degree of social responsibility. If any supplier has been found to have hired child, forced labor or committed other serious violation of labor laws, the Group will immediately cease the business relationship.

The Group will work closely with suppliers to further improve the social responsibility of the upstream supply chain.

Product responsibility (B6)

The Company values product quality, believes that quality comes first, and constantly enhances the "Tiangong" corporate image. In order to win the confidence of customers, consistent quality must be ensured. The Group strictly regulates the product manufacturing process. There have been multiple quality testings on raw materials and final products before they are sold to the market, to make sure that the products are environmental friendly, healthy and safe. The Company believes that the use of appropriate management system will greatly enhance efficiency. As a result, quality control management will be carried out in accordance with the management system GB/T 19001-2008/ISO 9001: 2008, and the measurement management will be carried out in accordance with ISO 10012:2003. The Company is listed as Enterprise with Grade 1 Management and Measurement Systems in the Jiangsu province.

The Company also deeply believes that "products reflect the character, character determines the products". So by assigning the resources to the personnel training and team building, we aim at providing products of high quality, injected with the enthusiasm and extraordinary professionalism of our colleagues.

In the financial year, the Group has complied with all relevant laws and regulations regarding health and safety, advertising, labelling and privacy matters.



Quality testing procedure



4. Environmental protection (A1-A3)

The Group's operations strictly follow the principal of "production must be subject to safety, production must be subject to the environmental protection, and adherence to the green development". In accordance with the relevant provisions, taking into consideration of the actual situation of the Company, the Group will comprehensively promote the Company's environmental protection work to a new level. The Group is aware of the potential environmental impact of its business and manufacturing processes, including air pollution, water pollution, hazardous waste and greenhouse gas emissions from combustion of natural gas in production. The Group has taken all possible measures to comprehensively strengthen environmental management, environmental protection technology development and environmental protection education to prevent the occurrence of pollution incidents. The Group complied with the laws, regulations, policies, regulations and standards on environmental protection in accordance with "the Environmental Protection Law of the People's Republic of China", "the Law of the People's Republic of China on the Prevention and Control of Water Pollution", and "the Cleaner Production Law of the People's Republic of China", to protect the environment, promote cleaner production, and achieve sustainable development.

The Group's environmental policy is committed to the following principles to minimize the environmental impact of the Group's operations:

- complying with all relevant environmental laws, regulations and standards;
- setting up a management team to supervise the implementation of environmental protection policies and measures;
- conducting monthly inspection on environmental protection work to ensure that all aspects comply with the standards, and provide inspection records;
- inspecting and evaluating all aspects of the Company's environmental protection at the end of each year, and provide an annual comprehensive environmental assessment report, to enhance the level of environmental management;
- quantifying and monitoring the major impact of the Group's activities, products and services on the environment, and develop and review the annual specific improvement indicators;
- requiring all employees to carry out environmental responsibility and internal management procedures in daily operation procedures;
- promoting employees' awareness of environmental protection and resource benefits through different projects and programs.

Emissions management

The Group is constantly striving to improve the efficiency of the production facilities and management of the emissions. Through a close monitor of potential emission in the operation and effective control of risk factors, environmental pollution has been reduced.



Air Pollution Management

The Company replaced all of the coal-fired furnace heating facilities with natural gas heating facilities in 2011, which greatly reduced air pollution. Dust collection devices and fume collection devices have been constructed on-site to reduce dust and oil mist spread, whose removal efficiency is greater than 95%. Regular maintenance work on equipment has been done by the maintenance department of each production workshop to ensure that parameters stay in the normal range, so as to prevent the equipment from emitting exhaust abnormally.

Sewage Disposal Management

The Group increased the sewage treatment station's daily processing capacity to 2250 tons in 2011, to ensure that the integrated wastewater can be treated timely to meet discharge standards. All the effluent from the production process will be concentrated in the sewage treatment station to ensure proper disposal, recycling and compliant emissions. Wastewater is divided into mixed wastewater and pickling wastewater, which are to be treated separately: mixed wastewater will be used as cooling water after biochemical treatment; and pickling wastewater will be added to untreated mixed wastewater after neutral processing and pressure filtration.



Wastewater treatment system

Waste

The waste generated in the production process is mainly smelted slag and general household waste. After magnetic separation, the metal part of slag will be put back into the production line, while the remains will be transferred to the tile factory and cement plant for brick and cement production. General household waste will be collected by the government for centralized disposal. Hazardous waste is mainly composed of waste mineral oil, waste emulsion and pickling sludge, which was handed over to hazardous waste disposal center in accordance with the provisions of hazardous waste management.



Strengthen the employees' awareness of environmental protection

The Group protects the environment in different ways during the daily operation. Apart from the improvement of management system, the Group has equipped all the staff with knowledge of environmental protection through the training program. The Group believes that employees can consciously take care of the environment and ensure that the environment is not polluted during operation through education.

Resources management

The Group's main resources used are water and natural gas. The Group has recycling measures to reduce water consumption. In terms of energy saving, production workshop has been designed and built to allow the penetration of natural light as much as possible so as to reduce the power consumption of lamps.



The production workshop greatly uses natural light



Trees are planted as much as possible on-site to counteract the carbon dioxide produced.

In order to improve energy efficiency, the Group implemented the “production-remuneration-energy-saving reward” wage accounting system, which linked staff wage income with the economic benefits of enterprises generated by energy saving to improve the overall enthusiasm for energy management, so as to build up a mechanism of “what I save benefits myself”. The detailed implementation measures of energy management has been elaborated in this ESG Report above. Besides, with the improvement of production technology and condition, energy-saving targets will be adjusted regularly. The Group hopes to improve employees' awareness of environmental protection and efficient natural resources application through this mechanism.



5. Contribution to the society

The Company's value is "to contribute to the community, and to benefit people". In addition to the pursuit of excellence and commitment to product innovation, the Group's mission is more about fulfilling the commitment to the society. As a result, the Group actively takes up social responsibility and contributes to the society, by organizing various activities and focusing on caring for the community and providing assistance to the communities in need. The Group brings together the strength of every colleagues to actively participate in and put resources in the community. We hope to learn more about community needs through charitable activities and share our success with the community.



Tiangong Kindergarten





6. Index of HKEX ESG Reporting Guide

The ESG Report is prepared in accordance with HKEX ESG Reporting Guide. General policy disclosures and key indicators are set out in the table below, with related chapter links or direct explanations.

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