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Phase I Green Stocks Investigative Report Releases in Beijing

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Responsible Investment in Cement Industry: Still a long way to go

China, Beijing - On June 18th, 2013, the Institute of Public and Environmental Affairs (IPE), together with Lvse Jiangnan, Green Hunan and SynTao Co., Ltd. will jointly release the Phase I Green Stocks Investigative Report. The report points out that 17 listed cement companies are in frequent violation of regulations on the discharge of gaseous pollutants and they are also not fulfilling their responsibilities to disclose discharge information. The NGOs call for the general public to push listed companies and their investors, both domestic and international, to take responsibility and control the serious air pollution issues.

Over the past few years China's air pollution problems have become increasingly serious and many regions have experienced smog on a large scale that has persisted for long periods of time. This has had a huge impact on residents' quality of life and health and has attracted a huge amount of attention from the general public. In analyzing the cause of this "haze", the key point is that emissions discharge is still well in exceedance of environmental capacity. Energy intensive industries such as thermal energy production, steel and cement production are the largest sources of pollution emission. Green investment will aim at these capital-intensive enterprises to push for pollution controls.

NGOs have spent two years in cooperation with specialized institutions to develop a tool for Green Investment. At today's press release, the IPE will officially launch the "Green Stocks Database" on the IPE website (<http://www.ipe.org.cn/gca/greeninvest.aspx>). Simply by typing in the listed company name or code, investors can find the environmental supervision records of its subsidiaries and affiliates. As of the day of release, the "Green Stocks Database" has gathered more than 850 listed companies with environmental supervision records.

Ma Jun, the Director of the Institute of Public and Environmental Affairs stated, "The State Council has recently released 10 measures to control air pollution which have energy and emissions reduction at their heart. The very energy intensive cement, steel, and thermal energy production industries, **especially those leading listed companies, need to share the heavy responsibility of reducing emissions and not disappoint the general public.**"

Due to its significant impact on the environment, the cement industry has been chosen as the first industry to be tackled under the Green Stocks project. China produces more than half of the world's cement. The manufacturing of cement consumes a large amount of fuel and electricity for processes such as grinding and high temperature calcinations. Pollutants such as particle matters (PM) are also released. **Dust emissions from the cement industry accounts for approximately**

30% of total industrial dust emissions, and NOx emissions account for 10-12% of total national emissions. These contribute directly to the formation of hazy weather conditions. Furthermore, the cement industry is also a source of greenhouse gasses and mercury.

Through our investigation, it was found that many cement companies have pollution issues, among them the listed companies which are industry leaders are also found to have frequent violations where they have exceeded discharge limits. A search on the Green Stocks website found **more than 170 environmental supervision records for 17 listed cement companies.** With a closer on-site investigation by Lvse Jiangnan, Green Hunan and IPE, some pollution issues affecting the environment and residents were discovered at a few affiliates of Tianshan Cement company and Nanfang (South) Cement Company.

Fang Yingjun from Green Jiangnan who took part in the on-site investigations stated, "From conducting the on-site research we've found that this industry has shocking problems with dust and waste gas emissions. The cement industry's violations deeply harm the living environmental and health of those who live near the factories." He went on to say, "In order to push listed companies in highly polluting industries to reduce their energy use and emissions discharge, the "Green Investment" campaign is absolutely necessary."

Tang He, from Green Hunan who took part in the on-site investigations, mentioned that, "Those who live nearby cement plants have suffered greatly and have nowhere to hide. The pollution of cement industry is just everywhere. I hope those listed company and investors can take their environment responsibility. No one can remain intact in front of environmental pollution."

The environmental NGOs contacted 17 listed companies to inform them of the aforementioned pollution problems. However, it was regretful that out of the 17 companies, **16 of them took an evasive stance towards their environmental violation problems.** China National Building Materials Group Corporation (CNBM,3323.HK), in holding of CUCC and South Cement, stated that, **"If you(NGOs) have not received a reply to the letter it is probably because the company felt the contents of the letter was of no interest."** Jilin Yatai Group (600881.SH) claimed that, **"It was not clear how a reply should be given."** BBMG Corporation (601992.SH, 2009.HK) replied saying, **"If we feel it's necessary we will follow up and contact you."**

To date the only company that has responded showing a willingness to follow up has been Lafarge SA (FR0000120537). Other listed companies such as Tangshan Jidong Cement Co., Ltd. (000401.SZ), Anhui Conch Cement Company Limited (600585.SH, 914.HK) and Huaxin Cement Co., Ltd. (600801.SH) did not respond at all to inquiries about their records for emissions discharge in breach of regulatory standards.

The environmental NGOs also attempted to contact domestic and foreign investors in these companies but the results have been disappointing. Amongst those large scale mutual fund companies in China, Borsera Funds, which invests heavily in Anhui Conch Cement and Huaxin Cement, replied stating that **the investment services provided by the fund to its client has only one goal and that is to make a profit for the client.** Harvest Funds confirmed that they had

received the letter but made no follow up. Franklin Templeton Sealand Fund Management Co., Ltd. did not give any kind of response.

The National Council for Social Security Fund of The People's Republic of China, in holding of Tangshan Jidong Cement Co. Ltd, did not give any kind of response.

One of the insurance funds contacted, China Ping'An, in holding of Anhui Conch Cement, did not provide any kind of response. New life China and Bureau of Labor Insurance (Taiwan) replied to stress that they pay attention to corporate social responsibility. However, they did not respond to any questions about listed cement companies and their environmental violation problems.

Amongst the investors there was no shortage of big name foreign cement companies and well known international investment institutions. Their responses can be split into different groups. JP Morgan, Merrill Lynch International as well as Germany's Heidelberg Cement and Switzerland's Holcim did not respond at all.

We have noted that J.P Morgan's CEO, Jamie Dimon, while discussing whether his company can have an impact on the environmental performance of large scale companies stated the following, "We obviously want to invest in and lend to companies that are well-run and successful – that's good business for us. And we believe that how our clients manage environmental and social issues is an important aspect of sound management." **However, J.P Morgan, which has invested in CNBM, Shanshui Cement Group and China Tianrui Group Cement Company Limited, even when faced with information showing that the cement companies that they had invested in have up to 30 environmental violation records, have still not provided any kind of response.**

A number of other foreign investors responded proactively. Both T. Rowe Price and KKR & Co.LP provided a positive response saying that they are conducting a follow up investigation into the environmental performance of listed cement companies that they have invested in.

CRH Group, which is located in Ireland, contacted the environmental NGOs just two days after the letter was sent to them and provided a proactive response. On June 3rd, CRH Group's global Sustainable Development Manager gave an official response. The response stated that they would push Yatai Building Material, a company in which they hold shares in, to investigate the environmental supervision records and then, within one month, provide an explanation detailing rectification measures.

Dr. Guo Peiyuan, founder of SynTao Co., Ltd., has commented that: "This report is the first of its kind which non-governmental organizations aim to directly engage investors from capital market in environmental initiatives. Responsible investors should pro-actively respond to these problems and communicate directly with the management of listed companies to push for improvement on environmental performance of these listed companies.

Over the past four years, the Green Choice Alliance, which was formed by a number of Chinese environmental NGOs, has used the Green Supply Chain tools to successfully push more than 950

companies to provide explanations detailing environmental violations they have and information on corrective actions taken. The progress that has been made stems from public pressure pushing brands to take action.

We call on the general public to make use of the ever increasing amount of publically available information to learn more about the serious pollution problems that exist at many listed companies. This information can then be used to push listed companies, and those domestic and international investors who invest in them, to take responsibility and control the serious air pollution problems that exist in the cement industry.