

Social Responsibility Report upon Hubei Xingfa Chemicals Group Co., Ltd. in 2013

The annual Social Responsibility Report (hereinafter referred to “This Report”) in 2013 upon Hubei Xingfa Chemicals Group Co., Ltd. (hereinafter referred to “Our Group” or “Xingfa Group”) reflected the overall conditions upon various social responsibilities bearing by Our Group or our holding subsidiaries, they are: to conduct Environment & Resources Production, to establish Harmonious Society, and to strive for Green Chemicals Industry & Recycling-economy during the process of Production & Operation; and to bear related benefits & social responsibilities for our shareholders, our employees, our customers, our suppliers, and the public etc. This report was compiled when referring to the specific conditions of all kinds of social responsibilities performed by Our Group, according to *Circular of the Implementation upon the Annual Report for Listed Enterprises in 2013*, regulated by Shanghai Stock Exchange (SSE). This is the 4th time when referring to Our Group’s Social Responsibilities, the time frame from Jan., 1st 2013 to Dec., 31th 2013.

I. Profile for Xingfa Group

Established in 1994, located in Xingshan County, Yichang City, Hubei Province, Xingfa Group is one of Chinese listed companies aiming at developing, producing and marketing a series of phosphorus chemicals and fine chemicals. Our Group (abbr. in the stock market: Xingfa Group) has been listed in Shanghai Stock Exchange (SSE) in 1999, Stock Code: 600141, with 435.39 million total equities.

Xingfa Group is regarded as China's biggest fine phosphates manufacturer as well as World's biggest Sodium Hexametaphosphate manufacturer. Our Group weights the title of the most-various and best-competing Chinese enterprise when referring to fine phosphorus chemicals, for which we are focusing on their development and innovation, for which we have built-up a sets of products chains that are various, mega-scale, well-covering, high-refining, high-additive valuable and of course high-tech, for which we possess 1 million manufacturing capacity which belong to 70 different phosphorus products that could be classified into Industrial Grade, Food Grade (additives), Medical Grade, Electronic Grade, Fertilizer Grade respectively, more than 50% of which (leading products) have been exported to 35 different countries or regions covering

Asian Continent, European Continent, American Continent, African Continent, and so on; for which we have already established long-term strategic cooperation relations with Procter & Gamble, DOW Chemical, Unilever, etc.

Up to Dec., 31th 2013, Our Group possesses 15.046 billion RMB total assets. In 2013, we achieved 10.934 billion RMB operational revenue, which is 13.66% up when compared with that of 2012; and we gained 81 million total net profits, which is 73.87% down when compared with that of 2012; and we gained 61 million total net profits owned by possessors of our parent company, which is 78.79% down when compared with that of 2012; and the every share's profits issued by Our Group is 0.14 RMB, too.

II. Protection upon Shareholders & Creditors' Equities

1. Continuous Improvement for the Protection Mechanism upon Shareholders' Equities. For a long time, in strict accordance with requirements from *Corporation Law*, relevant laws and regulations such as *Governance Criteria upon Listed Enterprises*, and *Articles of Association*, Our Group has always been in improving & promoting, they are: constantly improving for Corporate Governance Structure; steadily strengthening for

Internal Management; continuously promoting Quality of Corporate Governance; ceaselessly lowering the Operational Risks & Threats. Therefore, there are 5 measures & methods have been applied, they are: ①establishing Department of Internal-controlling which has improved Our Group's internal-controlling system that has already done so many significant works, such as completing the self-evaluation work for Our Group's internal-controlling & auditing; the continuous improvement work for formulating & amending more than 12 internal-controlling management system, such as *Contract Management System*, *Investment Management System*; ②promoting Special Committee's daily operations actively, for which so many significant meetings & sessions have already been convened for the detailed argumentation & full discussion upon important matters being submitted to Board of Directors for auditing, which has represented the outside directors & the independent (especially) directors' professional role during the process of Connected Transaction, Financial Auditing, Development Strategies, and so on; ③constantly conducting special examinations upon our subsidiaries, which is aiming at to urge rectification about questions & problems discovered during the process of examinations, to strengthen our

subsidiaries' senses of management of standardization, and to reduce our subsidiaries' operational risks & threats; ④initiating the examinations upon Connected Transaction & Funds-raising, for which we have already conducted the work of arrangements & examinations & opinions upon revisions (timely) for the implementation situations about Connected Transaction & the commitment conditions upon Funds-raising in 2013; ⑤sharing the results brought by our development, that is, every shareholders gained 0.3 RMB cash bonus per share, whose total amounts are 130.617 million RMB for return purpose.

2. Guarantee for Creditors' Legal Equities.

Our Group has always been proved as the guarantee for Creditors' Legal Equities, in strict accordance with credit & loan cooperation's business rules for uttermost reducing our operational and financial risks & threats. During the process of our operational decisions, we are trying our best to strive for creditors' equities with the following 2 steps, they are: ①to inform the significant information about creditors' rights on the basis of sound consideration of their equities at first; ②to inform the significant information about creditors' rights when fulfilling obligations in strict accordance with our contracts

signed with the creditors. Our Group has always kept good records when referring to Credit Status, which has already established long-term Credit & Loan cooperative relations that has also been ranked higher Credit Rating & Credit Line from co-operative banks.

3. Implementation upon Information-disclosure with Cautious Attitudes. Since 2013, Our Group has already established Pre-auditing Procedures for Information Disclosure, which guarantees the promptness, integration and preciseness of published Information Disclosure as well as fair Information Acquisition Rights for all shareholders, in strict accordance with new features & requirements of Information Disclosure in Shanghai Stock Exchange (SSE). In 2013, Our Group began to initiate the continuous disclosure promptly about hot issues in the market, such as Resource Tax Reform Medium Term Note (MTN) etc. which is boosting the formation of active, transparent Information Disclosure. This is the further improvement of initiative & transparency about the work of Information Disclosure on the actual conditions of the annual huge pressure upon our operation and more and more supervision situations. Our Group has always been in sound

communications with the market, related supervision departments which is the effective guarantee upon the fairness & justice & openness of the important Information Disclosure.

4. Continuous Strengthening for Investor Relations. To build-up Our Group's good image in Capital Market by stepping-into it willingly and to initiate interaction & communication about our Development Advantages & Development Prospects. Since 2013, Our Group's chairman secretaries have already went to Beijing, Shanghai, Guangzhou and Shenzhen for face-to-face communications & exchanges with our institutional investors about so many significant matters, such as our present operational situations, hot issues in the market, and the incoming opportunities & challenges, which is strengthening their faith towards Our group's future development as well as the fully identification recognized by the market. In the meantime Our Group has especially established the Department of Investor Relations in charge of the work of providing the required documents or services with the investors, the work of communications & exchanges opinions with the investors by means of websites, E-mails, telephones, which are in good for sound communications & exchanges, and creating

the opportunities for their better understandings & knowledge about Our Group's operations & management.

III. Protection upon Employees' Legal Rights & Interests

1. Guarantee for Our Employees' Income Level. Our Group has already done so many significant matters & things to guarantee our employees' income level, they are as the followings: the up-regulation for middle/night shift's allowances standards; the prolongation for female employees' paternity leave time; the improvement upon the subsidization standards for our employees' children attending universities; the situation of non-payment of our employees' wages & salaries never happened. Our employees' income level is listed in the following chart below:

Items \ Year	2011	2012	2013
Gross Payroll (ten thousand RMB)	19982	27516	32608
Average Salary (RMB)	40992	48216	51108
Five Social Insurances and	2839	4394	5544

One Housing Fund (ten thousand RMB)			
Enterprise Annuity (ten thousand RMB)	688	1117	1461
Medical Insurance Supplement (ten thousand RMB)	726	1128	1570
Subsidiaries for Our Employees' Children Attending College (person-time)	350	405	441
Total Amounts of Subsidiaries for Our Employees' Children	89.5	105.7	141.2

Attending College (ten thousand RMB)			
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2. Continuous Improvement for Our Employees' Social Security System. In strict accordance with *Labor Law* and other related laws or regulations, Our Group has already signed Labor Contract with all of our employees, for which we have also established the wages & salaries system and the welfare system, including the salary system, the incentive mechanism, the social insurance, the medical insurance, and so on. Our Group has already conducted five social insurances (medical insurance, endowment insurance, unemployment insurance, work-related injury insurance, maternity insurance) which were being timely contributed monthly according to China National laws or regulations. According to *China National Law on Prevention and Control of Occupational Disease*, Our Group has always organized our employees to participate in all kinds of the occupational health examination & routine examination in regular, for whose tested results we have also conducted statistical works and then to establish the health records & files for our employees which is convenient for problems discovering

& attendance & further consultation. Through all these effective guaranteeing measures & arrangements, our employees' life quality have been truly improved and promoted, for which Our Group's whole cohesiveness and our employees' senses of belongs have been significant strengthening and boosting.

3. Constantly Attaching Importance to Our Employees' Quality Promotion. Our Group has vigorously conducted all kinds of measures & methods for constantly attaching importance to our employees' quality promotion, such as to bring in college graduates or middle/high-tier technical talents, to advocate occupational-skills training actively, to promote in-service further education, for which the proportion of our employees who owning bachelor degrees & titles is higher and higher the structure of our employees is becoming younger and younger. The specific measures & arrangements are as followings: ①to set-up the career development channels (mainly management post or technical post) for our employees through opening recruitments (the examination form) for broadening & widening their channels of promotion. In 2013, we finished the work of appraisal during probation about 20 reserve cadres by opening recruitments in 2012; in 2013, we

conducted the opening recruitment among more than 1200 employees and singled-out 10 reserve cadres and 130 technicians. ②We also pay special attention to new employees' orientation training. The specific methods & means are as followings: to arrange new employees' pre-service training in our production bases; to pay key stresses on new employees' safety-production education. ③to actively conduct the in-service training. The specific methods & means are as below: to formulate the plan of in-service training in the beginning of the year; to organize live lectures & classes by inviting experts or professors in the field of chemicals, management and laws etc.; and to initiate all kinds of trainings & programs for our management levels organized by various supervision departments. In 2013, we organized 10 trainings & programs at company level, which were attended by more than 3000 our employees that has already achieved desired objectives by enhancing our employees' comprehensive qualities. The specific conditions & situations are as followings:

Items \ year	2011	2012	2013
Newly-added Employees (person-time)	301	1214	494

Newly-added Employees (person-time)	226	309	258
Newly-added Employees with Middle/High Job Titles (person-time)	78	14	79
Newly-added Technicians or Senior Technicians (person-time)	55	184	18

IV. Protection upon suppliers & Customers & Consumers

1. Good-faith Cooperation & Always Guarantee for Our Suppliers' Profits. Currently, Our Group is paying especially attention to Supply-chain Integration construction for the sake of creating a kind of sound competitive-environment for all suppliers by all kinds of measures & means, such as the

continuous improvement of our Purchasing Management Mechanism, and the constant optimization about our purchasing process avoiding all kinds of bad phenomena effectively, such as Black-box Operation, which is the guarantee for every suppliers' information rights, option rights and Participation rights. To be more specific, they are: ①to well conduct the purchasing work of raw materials through the means of open tendering. In 2013, we organized all kinds of 377 open tenderings, for which we have always adhered to the tendering principles of “justice, fairness, good-faith” during its processes. ②to increase the purchasing transparency by all kinds of information media. The methods & means being utilized here are: to release tender announcement & inquiry announcement by Internet, TV and so on; to extend the coverage for purchasing information, for example, insisting on issuing tender announcement & inquiry announcement in *China Steel Joint Network*, *China Metallurgy Furnace-burden Network*, *Chongqing Steel Logistics Network*, *TV & Website for Chongqing Steel Logistics Network*; to strictly implement the procedures for announcement; to open introduce more and more qualified suppliers for the sake of sound competitive mechanism. ③to continuously promote for tender management mechanism, for which Our Group has already

published *the Interim Procedures for Integrity Management upon Enterprises Biding for Engineering Construction Tender (trial)* for the consideration of sound Integrity Management System for Tenders on the basis of systems & laws. ④Our Group has always kept equal dialogue & rational management with our suppliers on the basis of principles of Honesty and Trustworthiness & Mutual-benefit and Reciprocity, and we will also respect the reasonable offerings announced by our suppliers for win-win cooperations and mutual development.

2. Enhancement for Products' Quality & Improvement for Customers' Satisfaction. Our Group has constantly improved the levels of our products & services by vigorously carrying-out quality & brand strategies and continuously strengthening technical innovation and quality promotion. To be more specific, they are: ①through the means of strengthening the process-controlling, the quality of our main raw materials have already been greatly improved on the basis of the acceleration for supervision upon raw materials, for which our products have already achieved steadily promotion for the sake of our customers' benefits. ②Our Group has also conducted on-site evaluation for our main suppliers who providing raw and

auxiliary material and our logistics outsourcing parties, which is on the purpose of providing satisfied high-quality products for our customers both in home and aboard on the basis of the promotion to effective enhancement of related parties' quality-assurance ability and service quality. ③Our Group has successfully passed several Social Responsibility Auditing including Procter & Gamble and Unilever as well as British BRC Site Auditing, which are effectively enhancing our competitive-abilities in the market. ④Our Group has also regulated our internal-running mechanism continuously, for example, to revise the *Contract Management System* according to our actual development conditions, when referring to sign economic contracts or protocols with our suppliers, customers and consumers, the principles of “openness, fairness, justice reciprocity and mutual benefit” has already been implemented well.

V. Energy-saving & Emissions-reducing, Safety Production, and Sustainable Development

In 2013, abiding by “*Safety & Environment-production is the 1st Lifeline during the Process of Enterprises' Development*”, Our Group has already achieved obvious effects & results in

Energy-saving & Emissions-reducing, Safety Production, and Sustainable Development on the basis of continuous promotion for Energy-saving & Emissions-reducing and constant innovation for Environment-protection management mode and endlessly input for Safety & Environment-protection. In 2013, Our Group conducted the total amounts of Energy-saving equals to 9717 tons of standard coals, which is equivalent to 8% down when referring to the Energy-consumption Values of every ¥10, 000.

1. Speeding-up Environment-protection Projects. In recent years, Our Group is focusing-on the environment-protection input & the promotion for projects or programs construction with high-quality and strict-standards. The related measures & means are as followings: in Baisha River Chemicals Plant, to implement the Emission-reducing Programs about the Comprehensive-controlling Project for Atmospheric Environment with the achievement of about 600 tons Sulfur Dioxide Emission-reducing per year, in the meantime to initiate the program of Moisture Condensation Process about the Desulfured Off-gases with 10 million investments for the sake of the total elimination of visual pollution in there; in Liucaopo Chemicals Plant, relying upon the successful-running of

Auto-pumping system for Yellow Phosphorus Off-gases in Baisha River Chemicals Plant, we has also implemented the same system in here, and our utilization rate for Yellow Phosphorus Off-gases has already achieved more than 98% by the usage of newly built-up production devices for 50, 000 tons Sodium Formate per year using surplus Yellow Phosphorus Off-gases.

2. Innovating the Environment-protection Management Mechanism. In 2013, Our Group has further intensified the Safety-production & Environment-protection Management, and we has vigorously strengthened the Monitoring Work for Environment-protection, and we has already acquired the national certificate and promotion as for our Yellow Phosphorus' Environment-protection technology. The countermeasures are as followings: ①to pay special attention to Safety-production and the rectification work for hidden risks & dangers in Environment-protection; ②to strictly conduct the Construction Admittance Policy, which is to link the supervision upon the construction organizations' Safety-production & Environment-protection with the month-end assessment about plants, stations and workshop for absolutely make-sure; ③to

constantly initiate organized emissions & harmless disposals about waste smokes, waste gases produced by special production devices for the sake of visual & actual pollutions;

④to vigorously strengthen the daily monitoring management upon sewage and waste water for avoiding excessive emissions;

⑤to optimize the Purified-production Schemes for Yellow Phosphorus for the sake of the remission work upon high Energy-consumption & heavy Pollution during the process of Yellow Phosphorus production, for which we have been honored as many certificates & prizes, such as the China national “*the Fore-runner among Enterprises Producing Yellow Phosphorus in 2012*”, the 3rd prize for Scientific-technical Progress in “*the Research & Application upon New Technology in Purified Yellow Phosphorus Production*”, which has already been promoted to so many companies (such as Jiangsu Chengxing, Yunnan Mile) or applied to different regions.

3. Strengthening the Construction of the Integration Utilization upon Resources & Recycling-economy. Currently, in the field of the Integration Utilization & Recycling-economy, we have already done so many achievements, such as zero emission for waste water, 100% recycling & utilization about

waste solids, the comprehensive utilization for waste gases and waste heat. To be more specific, in Yichang Fine Chemicals Park, the recycling industry chains have already been looped from the beginning to the ending, every by-products or wastes could be utilized as the raw materials for other products inside the Park; in Yidu Xingfa Eco-industrial Park, the project of beneficiation has been built-up, which is highly improving the utilization rate for middle/high level phosphorus mines as well as the energy-saving for water, electricity and so on; in Xiangyang Xingfa Chemicals Park, the off-gases during the production process of Yellow Phosphorus inside the Park have been utilized for Nano Calcium Carbonate which is the enhancement for resources utilization rate.

VI. Public Relations & Social Public-benefit Service

It is Our Group that undertakes our corresponding social responsibilities, for which we regard the fulfillment for our social responsibilities as the foundation & key points as for repaying society. To be more specific, one is to make contributions for China National Fiscal Levy, in 2013, we handed-in 492 million RMB taxes and dues, which is 17.70% higher than that of in 2012 (418 million RMB taxes and dues);

another is to initiate the education endowment, we have always been in actively supporting the development of local education career.

In 2013, Our Group has also performed so many achievements in other fields of social responsibilities with active, enthusiastic attitudes, they are: in protecting our shareholders' equities, in protecting our employees' benefits, in preserving our costumers' rights, in environment-production as well as other Social and Public Welfare Undertakings. In 2014, Our Group is constantly aiming at the maximization of the economic benefits & our shareholders' equities, in the meantime, we will also try our best to strive for all kinds of social responsibilities & public awareness, such as in environment-protection, in energy-saving & emission-reducing, in recycling-economy, in building-up the Harmonious Society for the well consideration for the coordinated & harmonious development in Our Group, Our Society and Our nature.