

**2006**

**Yunnan Hongyu Group Co. Ltd.  
Annual Development Report**

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### **Statement**

Mr. Ma Zhengshu, BOD chairman of Yunnan Hongyu Group Co., Ltd., hereby represents: that we accept the ten universally accepted principles of Global Compact in the areas of human rights, labor, the environment and anti-corruption; that we will continue to support and promote the implementation of these principles within the reach of our influence, and our strategies, culture and day-to-day operation will follow the Global Compact principles; that we make clear commitments to our employees, partners, customers and the public, and take measures to fulfill them, that we voluntarily accept supervision by the public; and that we will report the progress of our fulfilling of the Global Compact to the public.

Chairman's Signature:

## Preamble

This Report is to portrait implementation of the Global Compact by Yunnan Hongyu Group Co., Ltd. (hereinafter refers to Hongyu Group), through performing social responsibilities and establishing a harmonious enterprise, to achieve sustainable development.

This Report is provided by Hongyu Group to its employees, employers and customers, partners, shareholders and investors, governmental departments, organizations and all the people who are concerned of, support, and help Hongyu Group, to allow them to understand Hongyu Group's concepts and activities related to social responsibilities, and Hongyu Group's efforts in promoting the Global Compact and in realizing sustainable economic and social development.

This Annual Report is written in both English and Chinese, and the Chinese version shall prevail.

Since this Report is the first one we made, we compile it as per Global Compact Guidelines for "Communication on Progress" and adopt the second model recommended for report.

The financial data in this Report is in conformity with Accounting Standards for Business Enterprises and Enterprise Accounting System in China.

If you want to read online the electronic version of Hongyu Group's 2006 Annual Social Responsibilities Report, please visit Hongyu Group's website <http://www.hongyugroup.com.cn>. Hongyu Group 2006 annual social responsibilities report has been submitted to the United Nations Global Compact's official website. Please visit <http://www.unglobalcompact.com>.

Since this is the first for us to submit such report, this Report is focused on years from 2004 to 2006. This Report also includes important events in which Hongyu Group fulfilled its social responsibilities before 2004.

## About Hongyu Group

Founded in February 1995, Kunming-based Hongyu Group is a privately run group of enterprises engaged in multiple industries and diversified operations. As the result of efforts of industrial restructuring in recent years, Hongyu Group has attained a development layout integrating education, agriculture, alternative development for drug control, and high technology as well as trade, tourism and real estate since 2001, with considerable economic, social, and ecologic benefits. As one of China's large-scale private enterprises, Hongyu Group has made tremendous contributions to the economic growth in local regions inhabited by minor ethnic groups and the stability of country border. Now, Hongyu Group's total assets, including those of solely-owned and joint venture subsidiaries, have amounted to more than RMB 750 million, and the group engages over 10,000 rural families in its operation.

In education sector, the Group partners with Yunnan University in operation of Dianchi College. For agriculture, it owns Yunnan Hongrui Lemon Development Co., Ltd (joint venture); in alternative development for drug control sector, it has solely owned Yunnan Lvbao Industrial Development Co., Ltd.; in high technology sector, it owns Beijing Hongrui Lemon Technology Development Co., Ltd. (joint venture). In international operation, it owns Great Mekong River Int'l Development Park Co., Ltd.. Hongyu attained a new industrial layout backed by education, on the basis of agriculture, centered on the hi-tech with two pillar industries, i.e. alternative development and international operation, as well as commitment to social public interests.

A unique, rational, healthy, and advanced corporate culture of the Hongyu Group has come into being in the course of constant value creation and rewarding society. Under the enterprise spirit: "from our hands come our enterprises, and in our heart dwells our dreams", the Group keeps growing stronger and stronger. Its philosophy on "a sunshine road lead to a bright undertaking" and gives clearly the direction of development. Its essential principle of Code of Conduct of to be "sincere and innovative" has greatly promoted development; its objective pursuing values to "develop the enterprise and reward the society" has contributed to the harmony between the enterprise and the society.

The Group is also an active force pursuing the wellbeing of the public, by setting up Guangcai Program Foundation to fund various activities in helping students, elderly and poor citizens, and orphans, with acknowledgement and reputation from the society.

## Description of Actions

### Human Rights:

Belief --- “The company’s development relies on the fulfillment of every employee and support from the society.”

1. Guided by the people-oriented principle, we create a work atmosphere of healthy, enterprising and benign competition so that employees have their values reflected in values their created for the Group.
2. As to employees’ benefits and rights and interests protection: we developed the management system centered on Corporate Management Rules Corpus 2005, protecting pay and benefits of employees, labor treatment (including working hours, leaves and holidays, overtime, wages, etc.), training organization, transfer and other related problems. The management system was initially developed in 1995 when the Group was established and has gone through three major revisions in 1997, 2003, and 2005.
3. As to work protection and safety: We formulated the Emergency Response Procedure, Rules on Work Protection and Safety, Emergency Reponses Plan, Rules on Occupational Health Management, etc.
4. As of December 2006, Hongyu Group has timely and fully paid wages to employee, paid the “five insurances and one fund” (i.e. unemployment insurance, endowment insurance, medical insurance, maternity insurance, work injury insurance and housing accumulation fund. We maintain commercial insurance at RMB100,000 per employee against life accidents every year.
5. Hongyu Group encourages employees to continue their education and improve qualification and skills, and proactively provides the conditions for that. 12 employees have passed the upgrading examination and obtained university degrees.
5. Yunnan Hongrui Lemon Development Co., Ltd., a subsidiary of Hongyu Group, has purchased fresh lemon fruits from farmers since 2003, and the company provides a minimum protective price so that farmers will not be influenced by price fluctuations caused by product supply and demand. Hongrui has never given any I.O.U note when buying lemons. The company delivers cash to hands of farmers, maintaining farmers enthusiasm in plantation and their trust in Hongrui.

## **Labor Standard**

Policy --- “people-oriented and humanized work atmosphere”

1. Hongyu Group prohibits any form of forced labor, has express rules regarding overtime working, and does not encourage employees to work overtime. If overtime is not avoidable, the Hongyu Group will compensate with holidays or additional pay, at employees' option.
- 2 The recruitment of Hongyu Group's employees are as per market principle, in a bidirectional selection by both the Hongyu Group or by the candidate on a voluntary basis. Our Employment Agreement clearly defines service term, conditions, training, confidentiality and penalty upon unilateral termination.

## **Environment**

Belief --- “Ecological benefits is of more significance than economic benefits.”

Actions:

1. During the feasibility study stage of new projects, Hongyu Group puts priority in assessment of impacts on ecological and living environment, and takes measures to reduce even eliminate such impacts. Yunnan Hongrui Lemon Processing Plant, a plant of Hongyu Group, teamed up with the environment monitoring authority in field survey for treatment and discharge of waste gas, waste water and industrial residues, from the every start, and performed design optimization of the treatment processes. Now, the waste water produced during processing can be filtered for recirculation to minimize the pollution to the minimum.

Industrial residues consist mainly of organic fibers, which can be made into feed additives after processing.

Waste gases from boilers comprise CO<sub>2</sub> and steam have a Ringelmann number less than 1 as per conform to national fume emission standard.

2. For projects in operation, periodical internal inspections and invited on-site inspection by local environment monitoring authorities have been conducted to ensure timely correction and remedies for identifies problems. Along with increase of capacity, the former treatment systems of Hongrui Lemon Processing Plant were not bale to meet treatment demands. Though demands for funds exist in every respect of our business, Hongrui Group has constructed a 330 t/d wastewater treatment plant and a

100-tonne circulating water pool, to ensure no discharge of one drop of untreated wastewater out of the plant.

3. Keep and maintain living environment and take responsibilities for food health. During developing lemon plantation bases, Hongrui prohibits using of hazardous pesticides. Every year, Hongrui offers a certain quantity of fertilizers and non-hazardous pesticides to farmers free of charge. If any farmer is found to having used harmful hazardous pesticides, Hongrui Group will take actions according to the plantation agreement and help them remedy adverse consequences. Furthermore, Hongrui delivers trainings to farmers every year to make them establish good consciousness of environmental protection for sustainable development. At present, all lemon plantation bases of Hongrui are pollution-free and environmentally friendly, which ensures food health from the source.
4. Maintain vegetation to avoid water and soil losses

In respect of lemon plantation, Hongrui encourages farmers to reclaim wasteland, plant lemon trees and make them survive, and has built roads and small reservoirs on the reclaimed hills to relieve the farmers' worries, and maintain and expand continuously the vegetation. Hence, Mr. Ma Zhengshu was awarded Award of Contributions to Land Vegetation by CSPGP.

### **Anti-Corruption**

Belief — “Nobody commits bribery if nobody offers bribes; and nobody offers bribes if nobody demands.”

1. Ever since the establishment of the company, the Code of Conduct has been formulated and revised on a constant basis, advocating “to be a right person then do right thing” and “a sunshine road lead to a bright undertaking” in practices of every employee.

The Code of Conduct has provisions in details with respect professional ethics, disciplines as well as work styles, which together form a management system to fight against corruption case and regulate employee behaviors. Furthermore, we take professional ethics as an important program in pre-working orientation for recruits.

2. During invitation for bids, Hongyu Group insists on the principle of being “open, fair and just”, and allows no underhand deals, by which we win respects from competitors. Yunnan Hongrui Lemon Development Co., Ltd., which built a lemon production line in 2006, carried out open invitation

for bids from equipment procurement to construction of plant. Related participants were given trainings on probity and honesty every time before participating in bidding activities. During entire invitation for bids process, the Audit & Supervision Department conducted monitoring to ensure the “open, fair and just” principle.